JANUARY 2, 1984 THREE DOLLARS

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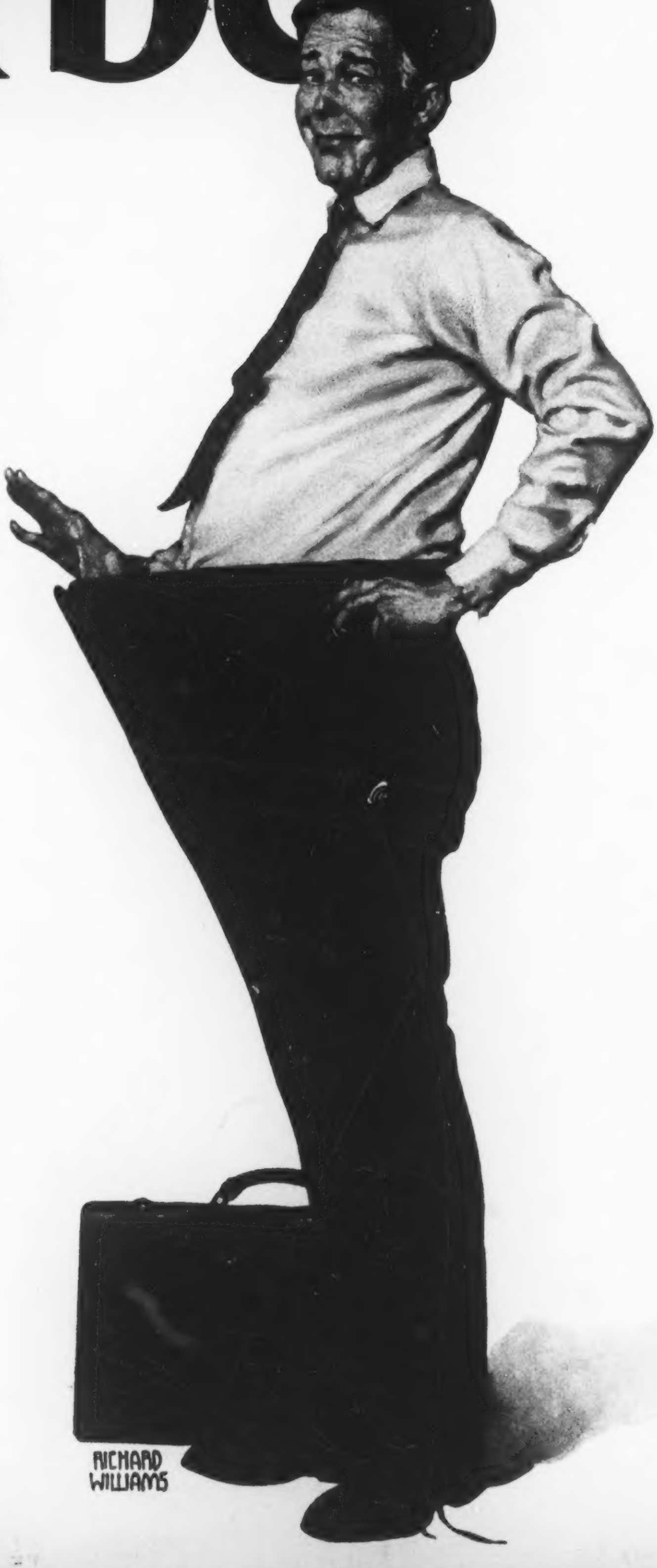
Forbes

36th ANNUAL REPORT ON AMERICAN INDUSTRY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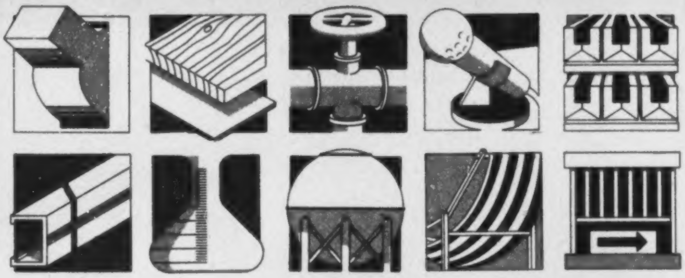
Annual Report On American Industry



January 2, 1984 Volume 133, Number 1

How the 1,008 largest U.S. public companies compare in profitability, growth and stock market performance on the Forbes Yardsticks, and what lies ahead in 1984.

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In Japanese *tako hai* means a corporation that pays dividends out of capital like an octopus that eats its own tentacles to survive. That's what U.S. business has been through.

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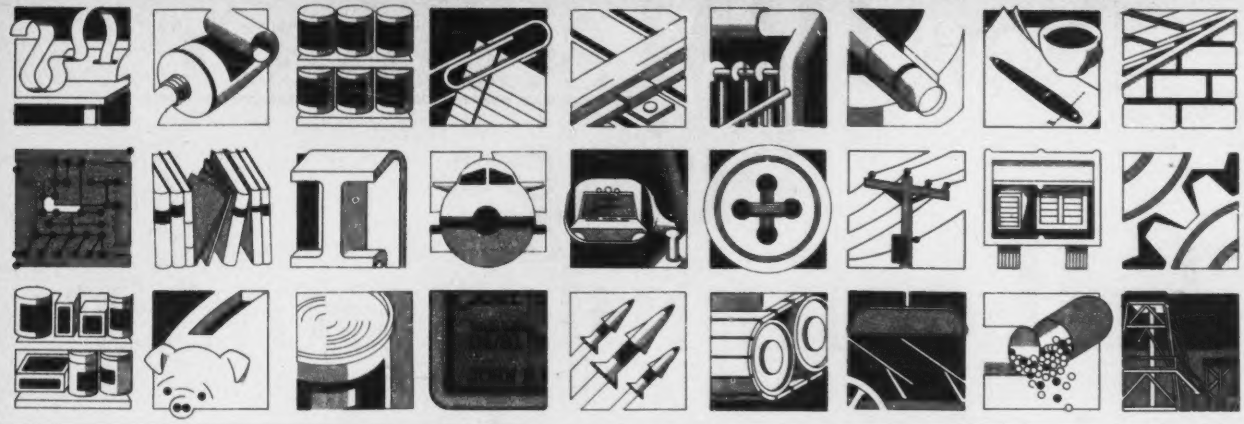

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Illustrations:
8, Phil Huling; 304, Chas. B. Slackman

Cover Illustration: Richard Williams

Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in April and two weeks in October by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Subscription $39 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011. Copyright © 1984 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office.

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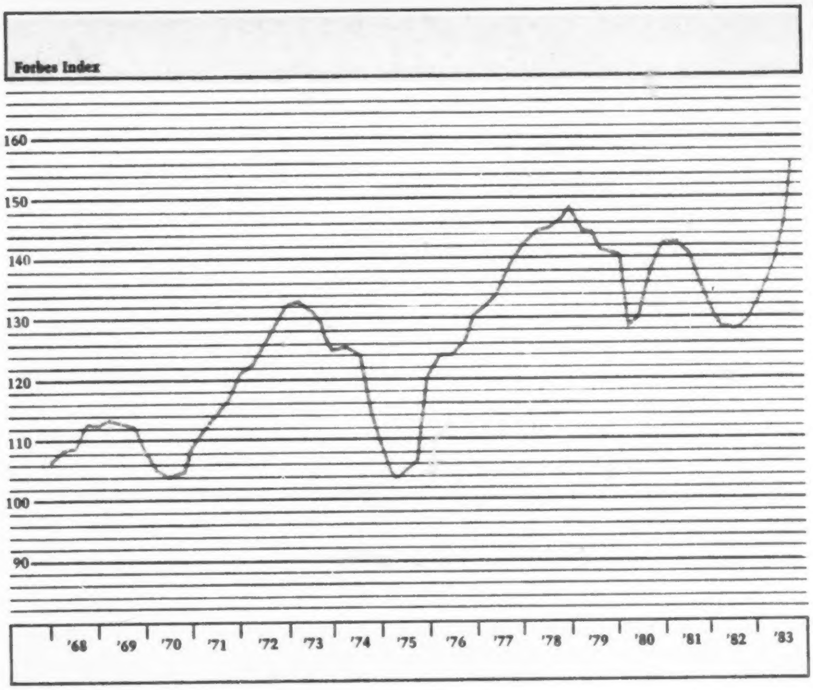
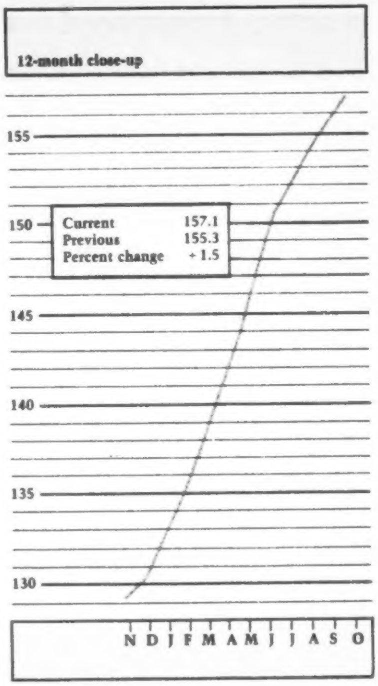
The Forbes Index



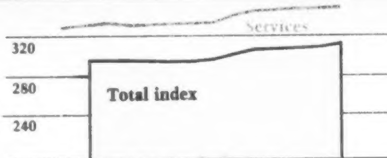


Strong and steady. In the current reporting period new figures for two components propelled the Forbes Index to another of 1983's records—1.5% above the previous peak. Our measure of overall economic activity is more than 20% above where it stood at the end of 1982. In October 1982, manufacturers' new orders were at a recessionary low. But with a 3.1% month-to-month rise, this figure is nearly 35% higher than it was during the same period in 1982. Meanwhile, manufacturers' inventories posted only a 0.2% gain. Inventories are more than 6% lower than the bloated levels of 1982. This isn't too surprising. More firms are emulating Japanese just-in-time management techniques. As the recovery continues to build momentum, overheating does not yet appear to be a problem.

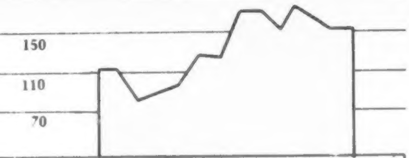
The Forbes Index Components

The FORBES Index is a measure of U.S. economic activity composed of eight equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, total consumer installment credit.

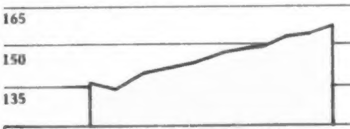
To measure these eight elements, FORBES monitors ten series of U.S. government data. The last 14 months' data for each series is presented at right.



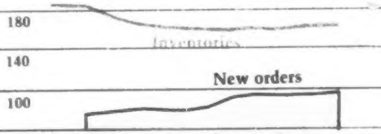
Consumer price indexes (1967 = 100)
all urban consumers, unadjusted (Dept. of Labor)



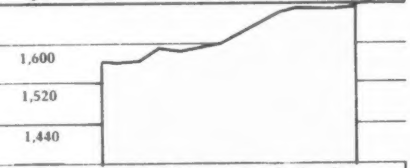
New housing starts (thousands)
privately owned, unadjusted (Dept. of Commerce)



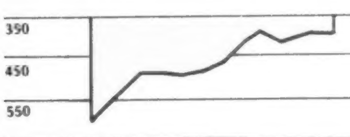
Industrial production index (1967 = 100)
Seasonally adjusted (Federal Reserve)



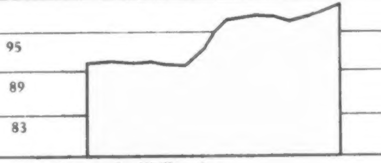
Manufacturers new orders and inventories
($billions) seasonally (Dept. of Commerce)



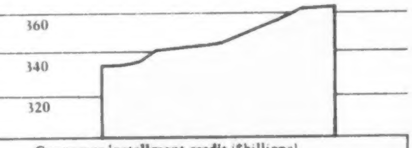
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept. of Commerce)



Unemployment claims (thousands)
seasonally adjusted (Dept. of Labor)



Retail store sales ($billions)
seasonally adjusted (Dept. of Commerce)



Consumer installment credit ($billions)
total, seasonally adjusted (Federal Reserve)

The Forbes Yardsticks 1983

What they measure—and how

The Forbes 36th Annual Report on American Industry evaluates management performance at the nation's largest public companies. Included in our universe of 1,008 companies is every firm with revenues of over $450 million, and our data include both five-year averages and results for the latest 12 months.

The numbers in this issue chart companies according to profitability, growth and stock market performance. In addition, we measure profit margins and debt/equity ratios. Forbes compares each company with competitors in its own industry and against every other firm we rank. We also compare the medians for the 46 major industry groups with each other.

To locate a company, refer to the table that begins on page 39. It lists the firms alphabetically, giving the pages where each industry survey begins and where the appropriate Yardsticks appear. This table also provides each company's overall rankings in terms of profitability, growth and stock market performance.

For those of a serious statistical bent, here is how we calculate the Yardsticks: Return on stockholders' equity is the percentage return on the stockholders' portion of a company's capital. We derive this by taking earnings per common share (primary basis) as a percentage of stockholders' equity per share at the start of the year. We assume that all convertible preferred has been converted, which explains why our figure is lower than some others.

Where to find the Yardsticks

Industry median rankings, p. 248
Profitability rankings, p. 254
Growth rankings, p. 264
Stock market rankings, p. 274

The five-year return in our Yardsticks tables is the average of the returns calculated for the four full years 1979 through 1982, plus the 12-month period ending with the most recent quarterly report. (For companies with fiscal years ending in January, February or March, the years 1980-83 are used in place of 1979-82.)

Return on total capital is the percentage return on a combination of stockholders' equity (both common and preferred) and long-term debt, including current maturities, minority stockholders' equity in consolidated subsidiaries, accumulated deferred taxes and investment tax credits. The profit figure for this calculation includes net income, minority interest in net income and estimated aftertax interest paid on long-term debt.

For companies that derive all their capital from common equity, return on stockholders' equity and return on total capital will be nearly identical. A company that employs debt, however, can boost return on stockholders' equity, provided that it earns more on the borrowed money than the borrowed money costs after taxes.

Debt/equity ratio indicates to what extent management is using borrowed funds, so-called leverage, in an attempt to increase profits. The ratio is calculated at the end of the last reported fiscal year. We divide long-term debt (including current maturities) by permanent capital, which we define as total stockholders' equity plus minority stockholders' interest, accumulated deferred taxes and investment tax credits. A high debt-to-equity ratio makes earnings more volatile; it is usually considered prudent only in relatively stable industries.

Net profit margin comes from dividing net profits for the latest 12 months by net sales. The resulting number indicates what percentage of each dollar of revenue is available for dividends and reinvestment. Profit margins are best used as comparisons only among companies in similar industries. A starvation margin for an industrial company, for example, could be spectacular at a supermarket chain.

To smooth the yearly variations, we look back ten years to measure five-year sales and earnings-per-share growth. We then average these figures for the most recent five years (1979 through the latest 12 months) and compute the percentage change from the average for the preceding five years (1974 through 1978). We then express that change in terms of a five-year compound annual rate of growth, since the midpoints of the two periods are five years apart. This long-term focus differentiates our Annual Report from most other statistical compilations.

Where to find the company

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Abbott Laboratories	80	144	202	213
ACF Industries	769	766	570	190
Acme-Cleveland	876	821	807	194
Aetna Life & Casualty	477	464	689	63
H F Ahmanson	896	886	580	60
Air Prods & Chems	345	334	499	173
Albertson's	119	196	165	228
Alcan Aluminium	565	318	351	160
Alco Standard	281	423	253	226, 244
Alexander & Alexander	116	655	942	55
Alexander & Baldwin	464	488	252	104
Alexander's	932	912	250	231
Alleghany	378	272	200	55
Allegheny Beverage	40	81	69	183, 211
Allegheny Intl	809	721	433	204, 244
Allegheny Power	545	602	518	90
Allen Group	891	871	434	99
Allied Bancshares	64	96	159	57
Allied Corp	681	645	422	74, 173, 244
Allied Stores	637	568	296	231
Allied Supermarkets	997	979	138	228
Allis-Chalmers	979	925	959	109, 194
Alcoa	732	563	489	160
AM International	992	925	976	183
AMAX	892	879	943	160
Amdahl	855	877	935	180
Amerace	880	869	655	194
Amerada Hess	314	236	412	74
American Bakeries	966	925	803	208
American Brands	126	174	348	222, 244
Amer Broadcasting	275	297	591	240
American Can	895	889	744	224
American Cyanamid	687	722	394	173, 220
American District	598	483	432	176
American Elec Power	719	778	924	90
American Express	165	259	326	55, 63
American Family	498	737	264	63
American General	356	280	272	63
American Greetings	390	236	68	235
Amer Hoist & Derrick	929	920	908	190
American Home Products	21	332	486	204, 215
Amer Hospital Supply	327	233	291	213, 226
American Intl Group	135	110	338	63
Amer Maize-Products	828	798	292	208
Amer Medical Intl	172	52	217	213
American Motors	988	979	572	109
American Natl Ins	670	334	465	63
Am Natural Resources	310	418	881	78
American Petrofina	385	502	356	74
American President	**	**	**	104
American Standard	296	414	551	199, 244
American Stores	91	89	97	228, 231
American Tel & Tel	643	623	887	176, 237
AmeriTrust	727	621	735	57
Ametek	190	419	153	194
AMF	864	836	861	235, 244
Amfac	820	791	555	226, 244
AMP	83	188	142	176
Ampco-Pittsburgh	842	773	863	190
AMR	939	925	242	139
Amstar	609	690	226	208
Amsted Industries	595	698	905	190
Anchor Hocking	856	829	483	224
Anderson, Clayton	759	540	725	206
Anheuser-Busch Cos	196	109	234	211
Anixter Bros	139	99	11	194
Apple Computer	1	5	957	180
ARA Services	714	691	704	231
Archer Daniels Midland	404	265	174	206
Arden Group	760	**	121	228
Arizona Public Service	532	700	862	90
Arkla	183	394	248	78
Armco	950	925	919	154
Armstrong Rubber	870	788	214	99
Armstrong World Inds	824	732	480	199
Arvin Industries	841	848	396	99
ASARCO	787	241	425	160
Ashland Oil	104	369	922	74
Associated Dry Goods	731	526	105	231
Athlone Industries	834	863	884	154
Atlanta Gas Light	782	742	759	78
Atlantic City Elec	663	714	738	90
Atlantic Richfield	148	137	642	74
Auto Data Processing	180	170	321	183
Avco	672	771	669	55
Avery International	420	251	157	194
Avnet	295	380	45	176
Avon Products	93	679	965	220, 231
Avondale Mills	878	779	359	217
Baker International	198	203	827	84
Baldwin-United	973	925	974	55
Ball Corp	360	304	224	224
Bally Manufacturing	175	61	898	235
Baltimore Gas & Elec	628	614	732	90
Banc One	268	299	189	57
BanCal Tri-State	793	566	285	57
BancOhio	858	805	850	57
Bangor Punta	859	294	739	144, 244
Bank of Boston	420	185	347	57
Bank of New England	287	208	314	57
Bank of New York	470	442	475	57
BankAmerica	572	616	941	57
Bankers Trust NY	300	135	270	57
Barnes Group	850	833	557	99
Barnett Banks Fla	335	121	188	57
Bausch & Lomb	386	448	220	213
Baxter Travenol Labs	256	157	254	213
Beatrice Foods	592	680	720	208
Becton, Dickinson	623	560	798	213
Bell & Howell	886	738	229	183
Bemis	777	628	429	224
Beneficial Corp	897	894	682	55, 231
Bergen Brunswig	212	23	14	226
Berkshire Hathaway	785	70	19	63, 208
Best Products	512	600	687	231
Bethlehem Steel	975	925	805	154
Beverly Enterprises	198	7	53	213
Big Bear	6	41	**	228
Big Three Industries	320	262	790	84, 173
Big V Supermarkets	97	117	181	228
Bird	971	925	951	199
Black & Decker	786	794	660	204
Blount	182	216	204	202
Blue Bell	496	694	516	217
Boeing	126	83	746	144
Boise Cascade	821	761	634	170, 199

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

Where to find the company

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Borden	614	493	367	208
Borg-Warner	560	329	155	99, 244
Borman's	931	907	781	228
Boston Edison	665	524	821	90
Briggs & Stratton	309	617	793	194
Bristol-Myers	**114**	**300**	**284**	215
Brockway Inc (NY)	**852**	**809**	**888**	224
Brooklyn Union Gas	**427**	**402**	**558**	78
Brown-Forman Dist	**106**	**67**	**413**	211
Brown Group	**311**	**153**	**114**	217, 231
Browning-Ferris Inds	197	93	75	194
Bruno's	17	34	**	228
Brunswick	173	138	108	235
Bucyrus-Erie	875	872	902	190
Burlington Inds	849	759	364	217
Burlington Northern	**712**	**134**	**49**	148
Burroughs	**837**	**808**	**952**	180
Business Men's Assur	**472**	**36**	**641**	63
Butler Manufacturing	**794**	**822**	**923**	199
Cabot	**140**	**48**	**256**	74, 160, 173
Caesars World	387	17	734	235
Calif Federal S&L	**	905	**	60
California First Bnk	724	665	808	57
Cameron Iron Works	229	267	665	84
Campbell Soup	451	513	544	208
Capital Cities Commun	**126**	**122**	**139**	240, 242
Capital Holding	**515**	**386**	**601**	63
Carnation	**280**	**378**	**454**	208
Carolina Pwr & Lt	**640**	**694**	**844**	90
Carpenter Technology	**434**	**492**	**574**	154
Carson Pirie Scott	728	649	411	231
Carter Hawley Hale	789	792	685	231
Castle & Cooke	881	867	891	208
Caterpillar Tractor	866	878	945	109, 190
CBI Industries	186	389	747	202
CBS	**470**	**739**	**719**	240
CBT	**388**	**196**	**361**	57
Ceco	**672**	**203**	**195**	199
Celanese	**832**	**770**	**450**	173
Centel	**289**	**500**	**630**	237
Centerre Bancorp	699	630	688	57
Centex	266	151	269	202
Central & South West	445	550	769	90
Central Illinois Lt	607	532	684	90
Central Ill Pub Svc	600	696	753	90
Central Soya	**780**	**739**	**800**	206
Central Steel & Wire	**630**	**575**	**441**	154
CertainTeed	**936**	**923**	**761**	199
Cessna Aircraft	**761**	**796**	**766**	144
CFS Continental	**590**	**308**	**83**	226
Champion Intl	830	834	840	170, 199
Champion Spark Plug	800	840	883	99
Charter	16	62	428	74
Chase Manhattan	513	235	621	57
Chemical New York	481	366	522	57
Chesebrough-Pond's	**142**	**300**	**540**	220
Chic & North Western	**347**	**448**	**13**	148
Chic Pneumatic Tool	**944**	**925**	**955**	194
Chromalloy American	**917**	**911**	**946**	244
Chrysler	995	979	[illegible]	109
Chubb	383	251	[illegible]	63
CIGNA	**	660	**	63
Cincinnati G & E	600	686	954	90

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Cincinnati Milacron	436	206	236	194
Circle K	312	528	184	228
Citicorp	418	433	651	57
Citizens & Sthrn Ga	399	26	241	57
City Federal S & L	781	373	89	60
City Investing	**596**	**451**	**282**	63, 244
Clark Equipment	**919**	**915**	**909**	109, 190
Cleveland Elec Illum	**568**	**719**	**852**	90
Clorox	**263**	**445**	**305**	204
Cluett, Peabody	**750**	**258**	**273**	217
CNA Financial	271	4	374	63
Coastal Corp	549	705	708	74
Coca-Cola	123	438	777	211
Cole National	156	169	43	231
Coleco Industries	4	**	8	235
Colgate-Palmolive	**502**	**709**	**698**	204, 220
Collins & Aikman	**698**	**604**	**74**	217
Colonial Penn Group	**706**	**842**	**899**	63
Colt Industries	**775**	**854**	**257**	154
Columbia Gas System	**550**	**560**	**775**	78
Combined Internatl	221	488	322	63
Combustion Eng	202	194	431	194
Comdisco	11	18	46	183
Comerica	704	664	834	57
Commercial Metals	490	472	94	154
Commonwealth Edison	**654**	**720**	**866**	90
Commonwealth Energy	**523**	**558**	**708**	90
Computer Sciences	**95**	**250**	**650**	144, 183
ConAgra	**85**	**51**	**76**	206, 208
Cone Mills	**718**	**716**	**243**	217
Consolidated Edison	580	450	379	90
Consolidated Foods	305	247	386	208
Consol Freightways	225	399	268	104
Consol Natural Gas	524	464	529	78
Consolidated Papers	258	311	535	170
Consumers Power	**689**	**713**	**940**	90
Continental Corp	**801**	**756**	**832**	63
Continental Group	**633**	**531**	**479**	224
Continental Illinois	**660**	**655**	**934**	57
Continental Telecom	**478**	**554**	**610**	237
Control Data	735	84	249	55, 180
Cook United	956	979	831	231
Cooper Industries	274	352	682	194
Adolph Coors	803	747	612	211
Copperweld	863	865	715	154
Corestates Financial	**527**	**377**	**382**	57
Corning Glass Works	**687**	**606**	**760**	176, 244
Cox Communications	**204**	**141**	**190**	240
CPC International	**238**	**382**	**598**	208
Crane	**856**	**868**	**802**	154, 199
Crocker National	683	591	815	57
Cross & Trecker	200	98	851	194
Crown Central Petroleum	403	413	365	74
Crown Cork & Seal	662	575	778	224
Crown Zellerbach	899	892	846	170
CSX	**779**	**420**	**599**	148
Culbro	**325**	**152**	**107**	222
Cullum Companies	**137**	**69**	**289**	228
Cummins Engine	**879**	**861**	**318**	99
Curtice-Burns	268	405	145	208
Cyclops	910	880	520	154
Dana	704	776	670	99
Dart & Kraft	457	510	647	208

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

Where to find the company

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Data General	560	474	813	180
Datapoint	417	181	631	180
Dayco	867	855	755	99, 194
Dayton-Hudson	290	461	106	231
Dayton Power & Light	608	657	911	90
Dean Foods	102	119	60	208
Deere	826	835	875	109
DEKALB AgResearch	748	765	889	206
Delmarva Power & Lt	636	661	706	90
Delta Air Lines	829	823	471	139
Deluxe Check Printers	41	166	247	242
Dennison Mfg	491	527	323	194
Denny's	306	435	383	231
DeSoto	721	477	260	199
Detroit Edison	721	707	837	90
Dexter	299	396	521	173
Di Giorgio	838	267	824	208, 226
Diamond Shamrock	602	830	824	74, 173
Dibrell Brothers	427	257	161	226
Digital Equipment	397	119	772	180
Dillard Dept Stores	440	201	27	231
Walt Disney	726	482	787	235
Diversified Energies	422	504	562	78
Dr Pepper	225	674	849	211
Dominion Resources	755	757	848	90
Donaldson, Lufkin	577	**	95	71
R R Donnelley & Sons	380	270	178	242
Dorchester Gas	77	132	280	74
Dorsey	765	588	203	224
Dover	72	148	194	199
Dow Chemical	556	785	741	173
Dow Jones	29	175	44	242
Dravo	918	906	948	202
Dresser Industries	581	654	874	84
E I du Pont	559	495	785	74, 173
Duke Power	543	506	754	[illegible]
Dun & Bradstreet	32	167	144	242
Duquesne Light	715	777	856	90
Dynalectron	381	31	137	202
E-Systems	247	326	24	144
Eagle-Picher Inds	783	807	830	194
Easco	709	795	491	99
Eastern Air Lines	982	925	949	139
Eastern Gas & Fuel	621	659	594	74
Eastman Kodak	267	452	794	235
Eaton	887	885	352	99
Echlin	626	680	679	99
Jack Eckerd	330	368	590	231
Economics Laboratory	645	726	729	204
Edison Bros Stores	332	593	705	231
EG&G	37	71	85	176
El Paso	844	900	633	78
Electronic Data Systems	63	183	22	183
Emerson Electric	150	305	519	197
Emery Air Freight	61	710	751	139
Emhart	378	578	661	194
Engelhard	213	269	**	160
ENSERCH	285	378	408	78
Entex	118	249	620	78
Equifax	188	555	218	242
Equitable of Iowa	795	620	782	63
Esmark	73	106	61	208, 244
Ethyl	506	645	302	173

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Evans Products	952	925	938	199
Ex-Cell-O	537	412	421	194
Exxon	190	298	640	74
Fairchild Industries	125	53	438	144
Farm House Foods	736	819	193	226
Farmers Group	258	244	542	63
Federal Co	615	711	743	208
Federal Express	22	15	37	139
Federal-Mogul	374	382	304	99
Fedl Natl Mortgage	946	925	655	55
Federal Paper Board	581	640	585	170
Federated Dept Stores	518	503	506	231
Ferro	703	735	666	173
Fidelcor	630	160	180	57
Fieldcrest Mills	747	673	655	217
Figgie Intl Holding	393	240	378	244
Fin Corp of America	8	13	9	60
Firestone	915	863	507	99
First Atlanta	344	127	134	57
First Bank System	497	439	676	57
First Boston	51	33	40	71
First Chicago	784	755	796	57
First City Bancorp	358	311	868	57
First Executive	70	3	2	63
First Interstate Bancp	425	283	524	57
First Natl State Bcp	447	344	447	57
First Natl Supermkts	317	309	459	228
First Pennsylvania	974	925	964	57
First Security	360	426	717	57
First Union	350	150	225	57
First Wisconsin	577	158	508	57
Fischbach	349	324	410	202
Fisher Foods	839	852	858	228
Fleet Financial	301	138	211	57
Fleetwood Enterprises	690	586	42	235
Fleming Cos	272	367	150	226
Flickinger	375	307	172	226
Florida Power & Lt	621	598	602	90
Florida Progress	658	703	692	90
Flowers Industries	234	313	119	208
Fluor	262	334	604	202
FMC	617	533	500	144, 173, 244
Food Lion	30	49	51	228
Foodarama Supermkts	921	908	576	228
Ford Motor	951	925	648	109
Fort Howard Paper	82	223	221	170
L B Foster	12	922	**	84
Foster Wheeler	142	178	391	194
Foxboro	693	642	654	194
Frederick & Herrud	577	454	388	206
Freeport-McMoran	79	118	290	173
Fremont General	100	424	301	63
Frontier Holdings	526	649	857	139
Fruehauf	901	888	554	109
Fuqua Industries	253	22	41	244
GAF	965	925	686	173, 199
Gannett	138	234	372	242
Gas Service	848	806	872	78
Gates Learjet	448	556	615	144
GATX	744	545	770	190
GEICO	14	**	17	63
Gelco	287	306	873	194
General Cinema	39	76	62	211, 235

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

Where to find the company

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
General Dynamics	223	68	135	144
General Electric	178	352	317	197, 204, 244
General Foods	362	463	629	208
General Host	539	**	63	231
General Instrument	211	43	133	176
General Mills	219	275	474	208
General Motors	860	874	697	109
General Public Utils	912	898	970	90
General Re	134	101	213	63
General Refractories	985	925	900	194
General Signal	448	331	472	194
Genl Tire & Rubber	871	847	614	99, 144
Genesco	900	**	358	217, 231
Genuine Parts	181	317	560	99
Geo International	161	644	**	84
Georgia-Pacific	816	831	886	170, 199
Gerber Products	405	473	340	208
Getty Oil	282	173	448	74
Giant Food	207	163	67	228
Gibraltar Financial	953	925	842	60
Gifford-Hill	811	769	730	199
Gillette	245	487	465	220
Glendale Federal S&L	**	914	**	60
Global Marine	42	6	233	84
Godfrey	713	733	758	228
Golden West Finl	481	753	197	60
B F Goodrich	903	846	504	99
Goodyear	808	700	417	99
Gordon Jewelry	519	354	355	231
Gould	720	818	836	176
W R Grace	451	564	530	173, 244
W W Grainger	298	325	495	197
Graniteville	947	925	632	217
Great Atl & Pac Tea	969	979	437	228
Gt Northern Nekoosa	596	552	528	170
Gt Western Financial	916	902	724	60
Greyhound	533	441	405	104, 206
Grumman	778	828	124	144
GTE	505	623	579	176, 237
Gulf & Western Inds	750	802	311	244
Gulf Oil	602	514	498	74
Gulf Resources & Chem	958	925	484	74, 173
Gulf States Utils	556	637	788	90
Gulf United	433	303	327	63
Gulfstream Aerospace	**	**	**	144
Halliburton	260	400	833	84
Hammermill Paper	738	648	399	170
Handy & Harman	342	543	345	160
Hanna Mining	925	915	947	154
Hannaford Bros	215	264	77	228
Hanover Insurance	303	140	136	63
Harcourt Brace Jovan	555	559	501	242
Harnischfeger	977	925	961	190
Harris Bankcorp	791	750	251	57
Harris Corp	304	180	756	176, 194
Harsco	576	683	556	194
Hartmarx	664	226	84	217
Harvey Hubbell	323	347	278	197
Hawaiian Electric	776	712	785	90
Heck's	480	428	324	231
G Heileman Brewing	31	46	20	211
H J Heinz	231	201	263	208
Walter E Heller Intl	868	851	485	55
Hercules	609	455	328	173
Hershey Foods	215	286	182	208
Hewlett-Packard	202	102	167	176, 180
Hilton Hotels	96	111	259	235
Holiday Inns	630	330	166	235
Holly Corp	351	447	792	74
Home Federal S&L-Cal	**	925	**	60
Honeywell	509	229	476	176, 180
Hoover	846	731	293	204
Hoover Universal	591	753	534	99
George A Hormel	514	410	319	206
Hospital Corp of Am	227	64	116	213
Household Intl	675	746	452	55, 231, 244
Houston Industries	616	669	819	90
Houston Natural Gas	98	238	427	78
HRT Industries	983	979	973	231
Hughes Tool	358	221	780	84
Humana	27	20	47	213
E F Hutton Group	36	40	25	71
Hyster	707	715	419	109, 190
IC Industries	827	688	510	148, 208, 244
Ideal Basic Inds	798	815	904	199
Idle Wild Foods	395	479	623	206
Illinois Power	542	687	917	90
Illinois Tool Works	319	340	339	194
Imperial Corp of Am	**	925	**	60
Inco	968	925	928	160
Indianapolis Pwr & Lt	484	538	740	90
Ingersoll-Rand	766	800	897	194
Inland Steel	942	925	937	154
Insilco	524	573	369	204
Intel	291	270	72	176
Interco	652	651	470	217
InterFirst	494	538	893	57
Interlake	853	820	515	154
IBM	99	428	567	180
Intl Flavors & Frag	144	408	789	220
Intl Harvester	987	925	972	109
Intl Minerals & Chem	440	741	457	173
Intl Multifoods	475	512	545	208
International Paper	624	632	693	170
Intl Tel & Tel	716	685	609	176, 244
InterNorth	329	498	363	78
Interpublic Group	243	434	462	242
Interstate Bakeries	961	925	712	208
Iowa-Illinois G & E	410	522	771	90
Irving Bank	467	315	511	57
IU International	147	302	303	104, 244
James River Corp Va	59	45	70	170
Jefferson-Pilot	650	507	763	63
Jerrico	294	159	98	231
Jewel Cos	333	207	306	228
Jim Walter	824	832	742	199
Johnson & Johnson	201	275	503	213
Johnson Controls	481	355	571	99, 197
Jonathan Logan	940	925	286	217
Earle M Jorgensen	541	626	458	154
Joy Manufacturing	575	582	605	190
K mart	606	657	546	231
Kaiser Alum & Chem	874	858	869	160
Kaiser Steel	957	925	337	154
Kane-Miller	920	899	212	208
Kaneb Services	124	436	810	84

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

Where to find the company

Rank				
Company	**Profitability**	**Growth**	**Stock market**	**Industry survey page**
Kansas City Pwr & Lt	583	615	749	90
Kansas Power & Light	509	607	607	90
Kaufman & Broad	927	838	482	202
Kay	547	541	699	206
Kellogg	49	375	561	208
Kellwood	861	841	461	217
Kelly Services	78	162	147	183
Kemper	377	288	478	63
Kentucky Utilities	734	749	750	90
Kerr Glass Mfg	930	921	662	224
Kerr-McGee	528	497	784	74
Keystone Consolidated	967	925	818	154
Kidde	488	360	424	244
Kimberly-Clark	285	319	329	170, 220
King Kullen Grocery	812	613	370	228
KN Energy	301	570	222	78
Knight-Ridder News	372	278	297	242
Koppers	885	882	914	244
Kroger	391	282	373	228
Laclede Gas	584	511	580	78
Lear Siegler	129	222	313	99, 144, 244
Leaseway Transportation	327	578	531	104
Levi Strauss	81	254	300	217
Levitz Furniture	702	360	71	231
Libbey-Owens-Ford	882	866	538	99
Life Investors	639	274	176	63
Eli Lilly	130	387	702	215
Limited	25	50	7	231
Lincoln National	696	483	502	63
Liquid Air	679	764	932	173
Litton Industries	76	**	139	244
Lockheed	57	881	35	144
Loews	117	108	103	63, 222
Lone Star Industries	823	758	801	199
Long Island Lighting	546	725	926	90
Longs Drug Stores	235	384	578	231
Longview Fibre	851	857	870	170
Louisiana Land	193	599	**	74
Louisiana-Pacific	864	826	595	170, 199
Louisville Gas & Elec	710	752	829	90
M Lowenstein	862	8	110	217
Lowe's Companies	468	631	154	226
LTV	769	533	325	154
Lubrizol	169	519	866	173
Lucky Stores	130	496	797	228
Lukens	928	913	936	154
M/A-Com	270	75	101	176
Mack Truck	938	925	**	109
Macmillan	893	891	170	242
R H Macy	195	104	26	231
Magic Chef	733	356	123	204
Malone & Hyde	308	428	349	226
Manhattan Industries	869	786	186	217
Manufacturers Hanover	491	491	816	57
Manufacturers National	755	744	680	57
Manville	909	895	963	199
MAPCO	235	702	930	74
Marine Midland Banks	761	176	603	57
Marion	962	925	971	74
Marriott	151	60	48	231, 235
Marsh & McLennan Cos	52	328	622	55
Marsh Supermarkets	402	369	341	228
Martin Marietta	282	321	240	144, 244

Rank				
Company	**Profitability**	**Growth**	**Stock market**	**Industry survey page**
Maryland National	530	376	380	57
Masco	136	296	175	199
Masonite	**	901	**	199
Massey-Ferguson	994	925	956	109
Mattel	963	925	931	235
May Dept Stores	493	507	335	231
Maytag	87	580	387	204
MCA	367	518	492	235
McCormick	401	388	446	208
McDermott Intl	815	849	843	84, 194
McDonald's	111	165	309	231
McDonnell Douglas	626	407	505	144
McGraw-Edison	701	634	652	197
McGraw-Hill	120	186	129	242
MCI Communications	35	**	5	237
McKesson	432	585	368	226
McLean Industries	342	1	**	104
Mead	830	850	613	170
Mei	43	57	31	211
Mellon National	587	349	588	57
Melville	71	214	255	217, 231
Mercantile Bancorp	419	408	649	57
Mercantile Stores	394	293	128	231
Mercantile Texas	183	211	332	57
Merck	110	427	678	215
Meredith	251	172	99	242
Merrill Lynch	107	66	78	71
Metromedia	2	19	79	240
MGM Grand Hotels	164	596	623	235
MGM/UA Entertainment	521	652	691	235
Michigan National	752	761	882	57
MidCon	556	626	**	78
Middle South Utils	641	727	880	90
Midland-Ross	834	815	845	194
Midlantic Banks	145	85	353	57
Milton Bradley	544	460	877	235
Minn Mining & Mfg	149	373	733	244
Mission Insurance	60	63	400	63
Mitchell Energy & Dev	19	55	66	74
Mobil	317	251	563	74
Mohasco	924	896	389	204
Monfort of Colorado	613	155	265	206
Monsanto	739	781	334	173
Montana Power	563	584	710	90
Moore Corp	346	537	586	183
Moore McCormack Res	721	742	817	199
J P Morgan	414	385	638	57
Morrison-Knudsen	407	213	215	202
Morse Shoe	686	698	407	231
Morton Thiokol	166	59	238	144, 173
Motorola	456	321	149	176
Mountain Fuel Supply	458	530	473	78
Munford	690	130	151	228
G C Murphy	840	633	191	231
Murphy Oil	121	82	398	74
Nabisco Brands	239	321	**	208
Nalco Chemical	92	358	331	173
Nash Finch	501	625	523	226
Nashua	935	919	864	183
National Can	629	401	725	224
National City	609	668	876	57
Natl Convenience Stores	53	78	54	228
National Distillers	769	797	713	173, 211, 244

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth. **Stock market:** 5-year price change. **Not ranked.

Where to find the company

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
National Fuel Gas	661	500	716	78
National Gypsum	742	586	371	199
National Intergroup	964	925	892	154
Natl Medical Entrprs	163	38	58	213
Natl Semiconductor	488	568	127	176
National Svc Inds	190	212	143	173, 194, 197
National-Standard	933	918	903	154
NBD Bancorp	682	572	694	57
NCNB	382	209	402	57
NCR	484	404	360	180
New England Electric	426	443	443	90
N Y State Elec & Gas	540	602	811	90
New York Times	232	161	169	242
Newmont Mining	487	192	312	160
Niagara Mohawk Power	563	617	774	90
NICOR	653	730	879	78
A C Nielsen	153	227	207	242
NIKE	3	9	548	217
NL Industries	461	452	592	84
Nordstrom	279	199	125	231
Norfolk Southern	530	287	**	148
North American Coal	438	417	429	74
North Amer Philips	585	459	183	176
Northeast Utilities	665	704	664	90
No Indiana Pub Svc	817	838	910	78, 90
No States Power	475	521	596	90
Northern Trust	758	672	646	57
Northrop	506	677	299	144
Northwest Airlines	911	883	582	139
Northwest Energy	445	485	96	78
Northwest Industries	140	284	639	154, 244
Northwestern Steel	884	876	933	154
Norton	588	536	707	194
Norwest	605	547	731	57
Nucor	83	145	146	154
NVF	972	925	762	154
Oak Industries	905	925	944	176, 240
Occidental Petroleum	56	315	618	74
Ogden	516	677	625	244
Ohio Casualty	242	288	517	63
Ohio Edison	672	744	894	90
Oklahoma Gas & Elec	638	733	795	90
Old Republic Intl	189	203	409	63
Olin	833	775	593	173, 244
Oneok	353	610	673	78
Orange & Rockland	573	552	701	90
Outboard Marine	842	759	239	235
Owens-Corning Fbrgls	807	814	711	199
Owens-Illinois	814	728	463	224
Oxford Industries	397	200	16	217
Pabst Brewing	**	**	**	211
PACCAR	454	548	316	109
Pac Gamble Robinson	805	803	822	226
Pacific Gas & Elec	588	609	690	90
Pacific Lighting	468	364	597	78
Pacific Pwr & Lt	573	647	799	90
Pacific Resources	369	341	537	74
Paine Webber	254	314	29	71
Palm Beach	251	475	550	217
Pan Am World Airways	981	925	820	139
Panhandle Eastern	263	360	493	78
Pantry Pride	998	979	171	228
Parker Drilling	224	266	916	84

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Parker-Hannifin	430	542	455	194
Parker Pen	697	784	552	183
Parsons	53	147	56	202
Pay Less Drug NW	162	190	109	231
Payless Cashways	176	136	87	231
Pay'n Save	569	634	341	231
Peabody Intl	922	910	**	194
Penn Central	710	100	117	244
Penn Traffic	649	683	636	228
J C Penney	667	595	403	231
Penn Power & Light	634	736	824	90
Pennwalt	801	801	736	173
Pennzoil	69	337	616	74
Peoples Drug Stores	363	86	80	231
Peoples Energy	503	691	**	78
PepsiCo	265	481	674	211
Perini	550	131	111	202
Perkin-Elmer	312	168	456	176
Petrie Stores	133	566	838	231
Petrolane	237	475	469	84
Pettibone	986	925	966	190
Pfizer	291	414	294	215
Phelps Dodge	914	862	835	160
PHH Group	88	112	112	194
Phibro-Salomon	15	47	**	226
Phila Electric	671	682	890	90
Philip Morris	88	171	436	222
Phillips Petroleum	275	380	878	74
Phillips-Van Heusen	809	44	223	217
Piedmont Aviation	155	285	91	139
Pillsbury	321	309	435	208
Pioneer	34	126	120	78
Pioneer Hi-Bred Intl	90	231	201	206
Pitney Bowes	293	346	208	183
Pittston	889	903	920	74, 231
PNC Financial	355	243	**	57
Pneumo	174	198	59	144, 228
Polaroid	890	859	950	235
Portland Genl Elec	641	689	925	90
Potlatch	804	810	806	170
Potomac Elec Power	618	573	606	90
PPG Industries	535	395	216	99, 173, 199
Primark	888	873	**	78
Procter & Gamble	206	360	773	204, 220
Provident Life & Acc	495	468	700	63
PSA	593	**	583	139
Public Service Colo	700	751	871	90
Public Service Indiana	412	564	939	90
Pub Svc Elec & Gas	676	696	779	90
Pueblo International	789	**	376	228
Puget Sound Pwr & Lt	684	768	927	90
Pulte Home	28	24	1	202
Purolator	171	277	113	99, 183
Quaker Oats	414	347	275	208
Quaker State Oil	535	670	668	74
Rainier Bancorp	553	486	607	57
Ralston Purina	462	604	344	208
Ramada Inns	955	925	765	235
Rath Packing	996	979	975	206
Raychem	321	94	298	197
Raymond Intl	774	827	477	202
Raytheon	103	177	453	144, 176, 244
RCA	757	793	757	55, 240, 244

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

Where to find the company

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Reading & Bates	227	227	375	84
Reichhold Chemicals	872	844	262	173
Republic Airlines	991	925	960	139
Republic New York	109	129	158	57
Republic Steel	949	925	839	154
RepublicBank	316	339	525	57
Research-Cottrell	822	470	912	194
Resorts Intl	113	72	619	235
Revco D S	156	154	163	231
Revere Copper	984	925	913	160
Revlon	465	611	953	220
Rexnord	819	843	907	194
R J Reynolds Inds	186	391	391	222
Reynolds Metals	883	853	841	160
Richardson-Vicks	455	398	**	215
Riegel Textile	745	728	644	217
Rite Aid	115	113	86	231
RLC	**	904	**	104
Roadway Services	166	356	230	104
Robertshaw Controls	806	617	310	197
H H Robertson	244	149	192	199
A H Robins	408	414	210	215
Rochester Gas & Elec	624	560	860	90
Rockwell Intl	257	224	141	99, 144
Rohm & Haas	486	103	104	173
Rohr Industries	357	**	549	144
Rollins	330	524	527	84, 240, 244
ROLM	10	14	50	237
Roper Corp	787	436	88	204
Rose's Stores	534	105	15	231
Royal Crown Cos	508	640	577	211
Ruddick	465	214	237	228
Ryan Homes	677	774	336	202
Ryder System	241	97	231	104
Safeco	443	333	414	63
Safeway Stores	571	666	737	228
Saga	412	391	36	231
St Paul Cos	410	403	587	63
St Regis	817	812	812	170
San Diego Gas & Elec	593	708	677	90
Sanders Associates	245	**	34	144
Santa Fe Industries	741	462	187	148
Savannah Foods	66	65	64	206
Savin	907	897	968	183
Schering-Plough	284	612	714	215
Schlumberger	23	54	514	84
SCM	792	663	442	170, 173, 199
SCOA Industries	55	88	81	217, 231
Scot Lad Foods	902	**	179	226
Scott & Fetzer	366	550	569	244
Scott Paper	752	543	377	170, 204
Scovill	740	411	653	199, 204
Seagram	565	115	115	211
G D Searle	159	189	122	215
Sears, Roebuck	764	722	404	55, 231
Seaway Food Town	396	344	494	228
Security Pacific	341	217	308	57
SEDCO	48	92	148	84
Service Merchandise	176	255	227	231
ServiceMaster Inds	13	73	118	213
Shaklee	67	229	209	213
Shawmut	693	123	277	57
Shell Oil	247	242	244	74
Sheller-Globe	877	887	198	99
Sherwin-Williams	695	143	65	199
Shopwell	799	2	102	228
Signal Cos	685	580	315	109, 244
Singer	954	979	406	144, 204
Skyline	854	799	564	235
A O Smith	923	890	575	99
Smith International	565	661	929	84
SmithKline Beckman	18	56	717	215
Snap-On Tools	132	280	497	99
Society	647	622	752	57
SONAT	208	220	381	78
Sonoco Products	338	342	131	224
So Carolina E & G	657	722	823	90
Southeast Banking	479	219	460	57
Southern Calif Edison	499	597	611	90
Southern Company	651	693	783	90
So New England Tel	618	519	385	237
Southern Pacific	737	218	198	148
Southern Union	323	469	541	78
Southland	337	245	271	228
Southwest Bancshares	437	371	566	57
Southwest Forest Inds	926	909	894	170, 199
Southwestern Pub Svc	273	639	721	90
Sperry	746	718	901	109, 144, 180
Springs Industries	796	193	281	217
Square D	178	499	496	197
Squibb	553	675	512	215
A E Staley Mfg	443	522	357	206
Stanadyne	472	591	568	194
Std Comml Tobacco	217	320	288	226
Standard Oil Calif	260	246	667	74
Standard Oil Indiana	210	290	536	74
Standard Oil Ohio	9	21	366	74
Stanley Works	538	466	464	204
State Street Boston	220	28	33	57
Stauffer Chemical	655	772	727	173
Sterling Drug	367	507	486	215
J P Stevens	908	875	659	217
Stewart & Stevenson	730	782	723	194
Stewart-Warner	836	824	635	194
Stone Container	472	549	30	224
Stop & Shop Cos	326	278	18	228
Storage Technology	160	95	906	180
Strawbridge & Clothier	716	443	126	231
Student Loan Mktg	20	11	**	55
Subaru of America	5	12	3	109
Sun Banks	511	141	346	57
Sun Chemical	392	191	307	173
Sun Company	278	350	415	74
Sundstrand	218	290	390	144, 194
Super Food Services	609	571	160	226
Super Valu Stores	58	133	90	226
Superior Oil	336	30	267	74
Supermarkets General	152	116	132	228
Swift Independent	45	**	**	206
Sybron	906	893	790	213, 244
Sysco	204	127	39	226
Talley Industries	959	925	885	204
Tandy	7	29	55	231, 235
TECO Energy	499	535	696	90
Tecumseh Products	383	529	627	194
Tektronix	354	256	547	176

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

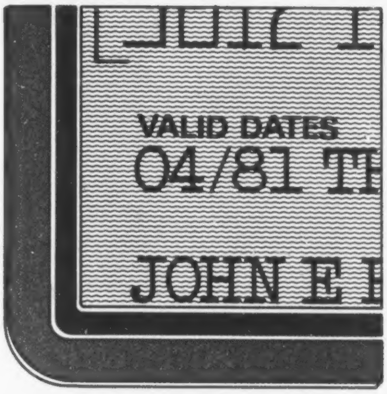
Where to find the company

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Teledyne	65	77	152	63, 244
Tenneco	372	608	763	74, 78
Tesoro Petroleum	46	91	467	74
Texaco	429	337	658	74
Texas Air	990	979	969	139
Texas American Bshs	439	372	440	57
Texas Commerce Bshs	146	146	333	57
Texas Eastern	333	439	509	78
Texas Instruments	754	790	565	176
Texas Oil & Gas	24	42	28	74
Texas Utilities	440	505	695	90
Textron	749	787	748	144, 244
Thriftimart	643	25	173	228
Thrifty Corp	376	164	279	231
Tidewater	221	457	637	84
Tiger International	980	925	977	139, 190
Time Inc	634	545	206	242
Times Mirror	249	327	246	242
Timken	847	825	828	194
Todd Shipyards	38	**	162	144
Toledo Edison	647	767	918	90
Torchmark	602	458	448	63
Toro	941	925	958	204
Tosco	44	925	894	74
Toys "R" Us	68	32	4	231
Trane	667	420	354	199
Trans World	943	925	488	139
Transamerica	409	294	533	55
Transco Energy	254	179	539	78
Transway Intl	669	783	573	104
Travelers	521	359	439	63
Tribune	678	813	**	242
Trinity Industries	86	182	92	194
Trust Co of Georgia	112	39	93	57
TRW	315	514	384	99, 176, 244
Turner Construction	75	107	219	202
Tyco Laboratories	62	114	156	197, 224
Tyler	371	628	526	194
Tyson Foods	453	393	283	206
UAL	948	925	847	139
UGI	742	705	865	78
UMC Industries	845	837	853	194
Union Camp	431	600	600	170
Union Carbide	707	748	444	173, 244
Union Electric	562	653	859	90
Union Pacific	570	292	395	74, 148
Uniroyal	945	925	228	99
United Brands	976	925	481	208
United Energy Resources	94	156	645	78
United Illuminating	423	636	855	90
United Merch & Mfrs	978	979	553	217
U S Bancorp	414	420	681	57
United States Gypsum	586	425	445	199
U S Home	516	195	140	202
U S Industries	913	859	393	244
United States Shoe	170	187	57	217
United States Steel	934	917	768	74, 154
United Technologies	369	471	543	144, 244
United Telecom	340	588	776	237
United Virginia Bshs	348	184	258	57
Univar	458	479	164	226
Universal Foods	365	556	804	208
Universal Leaf	233	261	362	226

	Rank			
Company	Profitability	Growth	Stock market	Industry survey page
Unocal	213	260	397	74
Upjohn	230	351	814	215
USAir Group	154	58	82	139
USF&G	352	428	467	63
USLIFE	528	517	671	63
Utah Power & Light	656	675	745	90
Valero Energy	108	10	532	78
Valley National	364	273	584	57
Varian Associates	813	446	21	176
VF	47	74	23	217
Vulcan Materials	250	397	350	173, 199
Wachovia	460	343	232	57
Wal-Mart Stores	26	27	6	231
Waldbaum	389	210	100	228
Walgreen	156	80	38	231
Wang Laboratories	33	16	12	180
Warnaco	240	**	32	217
Warner Communications	275	455	628	235
Warner-Lambert	692	817	809	215
Washington Gas Light	729	583	728	78
Washington National	725	590	675	63
Washington Post	122	263	196	242
Waste Management	105	37	73	194
Del E Webb	904	870	672	202, 235
Weis Markets	168	225	235	228
Wells Fargo	520	432	722	57
Wendy's International	74	79	423	231
West Point-Pepperell	646	466	185	217
Western Air Lines	989	925	962	139
Western Co No Amer	101	124	295	84
Western Union	873	667	320	237
Westinghouse Electric	424	232	205	197, 244
Westmoreland Coal	937	924	915	74
Westvaco	620	594	401	170
Wetterau	599	717	559	226
Weyerhaeuser	768	804	703	170, 199
Wheeling-Pitts Steel	960	925	341	154
Whirlpool	307	365	287	204
White Consolidated	679	780	274	204
Whittaker	208	35	261	213, 244
Wickes Cos	993	925	967	231
WICOR	772	763	854	78
Willamette Inds	767	811	767	170, 199
Williams Cos	797	789	513	173
H J Wilson	658	670	617	231
Wilson Foods	970	925	**	206
Winn-Dixie Stores	183	405	490	228
Wisconsin Elec Power	547	490	626	90
Wisconsin Pwr & Lt	462	493	663	90
Wisconsin Public Svc	503	516	589	90
Witco Chemical	405	477	266	173
Wometco Enterprises	400	389	52	211, 240
F W Woolworth	893	884	451	231
Worthington Inds	50	125	418	154
Wm Wrigley Jr	450	642	643	208
Wyman-Gordon	193	238	245	144
Xerox	435	577	921	183
Yellow Freight System	763	845	330	104
Zale	773	638	416	231
Zapata	297	87	77	84
Zayre	552	90	10	231
Zenith Radio	897	856	276	204
Zurn Industries	339	248	420	194

Profitability: 5-year return on equity. **Growth:** 5-year compounded annual earnings-per-share growth.
Stock market: 5-year price change. **Not ranked.

The industry continues in the throes of horizontal integration and consolidation. But if no upward spike in interest rates occurs, 1984 could be a very good year.



Financial services

By Thomas O'Donnell

COMPANIES ARE SO BUSY entering and leaving the financial services industry that it's getting hard to keep track of the players.

Some who have already jumped in are manufacturers like Control Data and National Steel. They usually hope to smooth out cyclical earnings through financial subsidiaries that make money when the basic businesses are flat or down. Others, like Sears, Roebuck and American Express, are going all out to turn themselves into financial supermarkets.

One that is getting out wants to stick to its basic business: RCA is selling almost all its C.I.T. Financial Corp. to Manufacturers Hanover Trust for $1.5 billion. Other departures have been prompted by too-aggressive tactics or competition from giant competitors. Falling into the too-aggressive category, to put it politely, is Baldwin-United, which filed under Chapter 11 in late 1983 amid disclosures of misleading accounting practices and shell-game shenanigans first made public in FORBES *(Dec. 20, 1982)*. Increased competition did in Walter E. Heller International *(see box p. 56)*, which decided in September to liquidate itself and distribute the proceeds among shareholders.

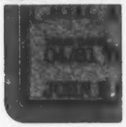
Clearly, it now takes significant size to compete effectively in financial services. The deregulation of the late 1970s, opening the way for any company other than a commercial bank to play the game, has rapidly transformed the scale and sophistication needed to do well in what only yesterday had been a cottage industry. Life was simpler when the industry still called itself consumer finance. Its customers generally could not get financing elsewhere and therefore were willing to borrow money at rates that sometimes approached 30%. As long as defaults were kept under control, bottom lines were as fat as the spread between what the companies paid for money and what they charged for it.

Financial services

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Student Loan Marketing	1	34.7%	43.4%	57.6	8	8.3%††	6.2%	6.8%	1	64.6%‡‡	1	66.9%‡‡
Marsh & McLennan Cos	2	27.6	26.2	0.2	1	27.0	23.4	12.8	7	17.4	6	12.6
Alexander & Alexander	3	22.6	def	0.6	2	25.0	0.5	def	4	21.5	7	4.0
American Express	4	20.7	21.6	0.6	3	17.3	15.9	7.3	6	18.3	3	14.6
Alleghany	5	16.1	13.0	0.0	4	13.2	10.9	4.1	3	40.9	4	14.2
Transamerica	**6**	**15.6**	**12.5**	**1.3**	**5**	**9.9**	**7.3**	**4.6**	**11**	**8.9**	**5**	**13.5**
Avco	**7**	**11.8**	**7.1**	**2.3**	**11**	**6.5**	**6.3**	**2.7**	**10**	**10.1**	**10**	**–0.6**
Household Intl	**8**	**11.8**	**13.5**	**2.1**	**10**	**6.8**	**7.3**	**2.5**	**8**	**14.1**	**9**	**0.9**
Control Data	**9**	**10.5**	**8.8**	**2.0**	**9**	**6.9**	**6.3**	**3.5**	**9**	**13.4**	**2**	**23.7**
RCA	**10**	**10.1**	**8.4**	**0.8**	**7**	**9.0**	**7.8**	**2.5**	**12**	**8.2**	**11**	**–2.2**
Sears, Roebuck	11	9.9	13.3	0.6	6	9.2	10.9	3.5	13	6.9	8	1.8
Walter E Heller Intl	12	6.4	def	2.0	13	6.1	3.5	**		**	12	–9.3
Beneficial Corp	13	4.1	9.1	4.0	15	5.1	5.9	3.8	14	5.8	13	–19.2
Fedl Natl Mortgage	14	def	5.1	50.6	14	5.3	5.5	0.7	5	18.4	14	P–D
Baldwin-United	15	def	def	1.7	12	6.4	def	def	2	58.8	14	P–D
Industry medians		**11.8**	**9.1**	**1.7**		**8.3**	**6.3**	**3.5**		**15.8**		**1.8**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
††Three-year average. ‡‡Three-year growth. P-D: profit to deficit. def: deficit. **Not available; not ranked.



Today's financial services companies are still in that game. Indeed some, having been burned by attempts at diversification, are sticking closer to home. Beneficial Corp. still sells insurance and auto parts as well, but in 1982 it got rid of Spiegel, Inc., its lackluster mail order subsidiary. In 1983 it moved deeper into financial service businesses by acquiring the $11 million credit card portfolio of a Beverly Hills bank and the $13 million portfolio of a Reno bank. It also formed Beneficial National Mortgage Corp. to strengthen its presence in the first mortgage business. Similarly, Household International, the parent of Household Finance, today runs retail chains like Vons supermarkets, Ben Franklin variety stores and American Furniture, in addition to manufacturing subsidiaries and an auto leasing company. But it wants to enhance financial services of all types. So in early 1983 the Prospect Heights, Ill.-based company backed out of a brief flirtation with air travel, by selling its Wien Air Alaska unit. Household is considering converting many of its 1,150 offices in 46 states into a national banking network when interstate banking is allowed by law. To test the idea, Household plans in early 1984 to convert a half-dozen HFC offices in southern California into consumer banks.

The $9 billion (assets) Student Loan Marketing Association, a newcomer to the Forbes rankings, and leading all the rest in return on equity, is also expanding its financial services, although it plans to stick mostly to the education credit market. In September Sallie Mae announced its first public stock offering and two months later announced plans to buy the Providence Savings & Loan Association in Virginia. "In this business our size ranks us as a boutique," says President Edward Fox. "We need time to grow, and this was a logical step."

Still another company that became more deeply involved with financial services in 1983 was Alleghany Corp., the old-line holding company. In 1983 Alleghany's Investors Diversified Services bought Gray Siefert & Co., an investment firm with $150 million under management. But IDS, the giant provider of mutual funds and insurance policies, with a powerful sales force now numbering 4,500, most of them in the field, was then sold to American Express. It was another instance of the increasing consolidation of the industry as two companies with obviously complementary distribution systems and product lines joined forces. The deal should be consummated early this year.

No one has assembled a more complete financial supermarket than American Express. Having digested its 1981 acquisition of Shearson and its 260 branches, it also acquired through Shearson two small brokerage firms in 1983: San Francisco-based Davis Skaggs & Co. and Omaha-based Childs, Heider. "Our objective is to provide the widest variety of financial services available from any single source," says Chairman James Robinson III.

Amex' closest rival is Sears, which in addition to being a financial supermarket is, of course, the nation's largest retailer. But Sears has no reason to concentrate solely on financial services. By the third quarter of 1983 its financial services earnings were up around 25%, but retail earnings were up much more, over 150%.

Add to all this activity the diversification of conglomerates such as Transamerica, and it's obvious that the financial services free-for-all, heated as it has been up to now, is hardly over. The competition has already added to the drop in the commercial banks' share of financial assets, from over 60% in the 1940s to less than 40% today.

As for insurance brokerage firms, some moved to strengthen themselves by making acquisitions and pruning costly units. Marsh & McLennan Cos. has been able to maintain its league-leading profitability rankings and also dump its underwriting activity, including English & American Insurance Co., the American Overseas Group and a 75% stake in Crusader Insurance—businesses with a combined premium volume of over $200 million.

In contrast, luckless Alexander & Alexander was forced to cut its dividend by 48% in early 1983, following a $40 million writedown and $26 million loss resulting from its purchase of the Alexander Howden Group. Financial irregularities were found at the large British insurance broker, which was purchased in 1982.

One insurance-oriented company that should do better in 1984 is Avco. The insurance operation may benefit from a decline in interest rates, while its extensive aerospace operations should benefit from its booming defense work.

The companies likely to benefit most from falling rates, of course, are those that derive most or all of their earnings from financial services. Included in this category are companies such as Sallie Mae or the much larger Federal National Mortgage Association. The $75 billion (assets) Fannie Mae got back into the black in 1983 following two tough years of red ink. Now that Fannie Mae, the nation's largest mortgage lender, has some breathing room, the company is acquiring adjustable rate mortgages and lengthening the maturity of its debt.

But, of course, that's the trick in this business: how best to protect yourself from rises in interest rates and declines in consumer spending. Recently it has been a boom-or-bust business. As for this election year, because interest rates are unlikely to leap and households are likely to continue to spend, 1984 could turn out to be one of the best years ever. ■

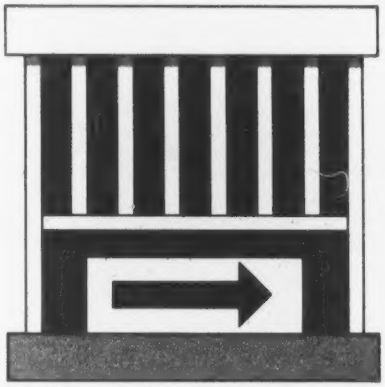
Bye, bye, Walter

There's not much mystery about why Walter E. Heller International met a slow death in 1983. The Chicago-based, highly diversified financial services company just wasn't as good at raising money as the giant banks and near-banks with whom it was increasingly competing.

Interest rate volatility and the inability of its mostly small corporate clientele to repay debts during the downturn squeezed earnings badly. In the first six months earnings fell to $4.4 million on revenues of $120.7 million, vs. $16.3 million on revenues of $150.3 million in 1982. Heller was forced initially into partial liquidation. Early in the year the company agreed to sell its two factoring subsidiaries, Walter E. Heller & Co. and Walter E. Heller Overseas Corp., to The Fuji Bank, Ltd. for $425 million. Late in the year it agreed to sell its third major unit, American National Corp., to First Chicago Corp. for $275 million.

With everybody from can companies to Xerox crowding into financial services, Heller's demise may be the harbinger of more to come. But nobody seems to notice. The lemmings press on.—T.O.

Bank bashing could be in favor in Washington and in the bustings. After all, somebody has to be the scapegoat for high interest rates.



Banks

By Thomas O'Donnell

NINETEEN-EIGHTY-FOUR is an election year, and bank bashing makes for good politics. You can make them take the rap for high interest rates, thus diverting the blame from Congress, whose refusal to cut spending is the real villain. You can tar them for those shaky foreign and domestic loans, too. Of the two issues, the second certainly has a fair validity.

In lending far too much to foreign nations and to energy-related borrowers, the banks ignored a couple of basics. Basic number one: Foreign governments can and do default. Basic number two: Just because oil prices have risen for a long time doesn't mean they will rise forever.

In mid-1982 falling oil prices led to the collapse of the Penn Square Bank of Oklahoma City. Since then other banks have posted Alaska-size losses on energy loans. In the third quarter Seattle's Seafirst reported staggering

Banks

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
New York banks												
Republic New York	1	22.8%	18.6%	0.6	1	15.6%	13.6%	8.0%	1	41.6%	1	20.7%
Bankers Trust NY	2	17.6	15.8	0.3	2	14.2	13.2	6.1	9	19.4	2	20.1
J P Morgan	3	15.5	15.2	0.3	3	13.9	14.1	7.6	4	22.9	7	11.2
Citicorp	4	15.5	17.1	2.2	9	10.1	9.1	5.1	5	22.9	8	9.9
Irving Bank	5	14.7	12.3	0.5	5	11.6	9.6	4.8	6	20.4	5	12.8
Bank of New York	**6**	14.7	16.2	0.2	**4**	13.5	15.2	6.3	**2**	27.4	**9**	9.8
Chemical New York	**7**	14.6	13.9	0.3	**7**	11.5	11.9	5.5	**7**	19.8	**6**	11.7
Manufacturers Hanover	**8**	14.5	14.0	0.7	**6**	11.5	9.8	5.0	**3**	24.4	**10**	8.4
Chase Manhattan	**9**	14.2	13.2	0.4	**8**	11.0	10.8	4.9	**8**	19.6	**4**	15.3
Marine Midland Banks	**10**	10.0	10.7	0.7	**10**	8.3	8.4	4.7	**10**	18.2	**3**	17.8
Medians		**14.7**	**14.6**	**0.5**		**11.6**	**11.4**	**5.3**		**21.7**		**12.3**
Regional banks												
Allied Bancshares	**1**	26.3%	25.3%	0.1	**1**	23.9%	24.1%	13.1%	**2**	40.2%	**5**	22.8%
Trust Co of Georgia	**2**	22.7	24.0	0.2	**3**	19.3	21.6	12.5	**32**	20.0	**3**	30.4
Midlantic Banks	**3**	21.2	21.4	0.2	**9**	15.2	16.3	9.4	**19**	22.5	**4**	23.5
Texas Commerce Bshs	**4**	21.2	20.1	0.1	**2**	19.8	18.6	10.7	**3**	30.8	**11**	19.5
Mercantile Texas	**5**	20.2	19.1	0.3	**5**	16.3	15.6	9.8	**1**	40.5	**20**	16.5
State Street Boston	6	19.3	17.4	0.3	**12**	14.4	14.4	8.0	**40**	19.0	2	34.9
Banc One	7	18.2	18.3	0.2	**4**	16.9	16.7	10.6	**10**	26.3	**26**	13.4
Bank of New England	8	17.9	16.0	0.2	**16**	13.6	12.9	6.2	4	30.4	**18**	16.7
Fleet Financial	9	17.6	18.1	1.3	**36**	11.6	11.3	8.8	**49**	17.5	9	19.9
RepublicBank	10	17.4	16.8	0.3	**10**	15.0	13.6	8.6	6	28.6	**28**	12.4
Barnett Banks Fla	**11**	17.0	18.8	0.3	**13**	14.4	16.7	8.3	**11**	24.6	**6**	21.1
Security Pacific	**12**	16.9	16.3	0.9	**18**	13.4	11.7	6.1	**18**	22.7	**21**	16.2
First Atlanta	**13**	16.9	19.0	0.3	**19**	13.2	15.1	9.1	**54**	15.1	**8**	20.7
United Virginia Bshs	**14**	16.7	17.6	0.3	**30**	12.1	14.0	9.3	**53**	15.6	**15**	17.5
First Union	**15**	16.7	19.1	0.3	**20**	13.2	16.6	8.6	**21**	22.2	**12**	19.3

Note: Explanation of Yardsticks calculations on page 38

energy-related losses, totaling $410.7 million, that drove the company into the arms of Bank of America. In August First National Bank of Midland, Tex. announced a $109 million loss and said nearly 25% of its loans, some $314 million, were nonperforming. That led to a run on the bank, which was kept alive only by an emergency $100 million loan extended by the Federal Deposit Insurance Corp. First National is now in receivership.

In October Dallas-based InterFirst, the state's largest bank holding company, reported a $194 million third-quarter loss. But the losses were not limited to the Southwest and Far West: Other major losers in the energy game were Chase Manhattan and

Banks

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
PNC Financial	16	16.6%	16.8%	0.1	8	15.3%	15.1%	9.3%	12	24.5%‡	23	15.0%‡
First City Bancorp	17	16.5	9.9	0.1	7	16.0	9.6	5.5	5	29.9	27	12.9
First Security	18	16.5	15.4	0.6	32	12.0	11.2	9.7	48	17.8	38	10.0
Valley National	19	16.4	11.9	0.0	6	16.2	11.9	6.1	28	21.1	24	14.1
NCNB	20	16.0	16.8	0.5	24	12.7	13.4	7.6	17	22.8	19	16.7
CBT	**21**	**15.9**	**15.2**	**0.3**	**22**	**12.9**	**11.6**	**7.1**	**41**	**18.9**	**17**	**16.9**
Citizens & Sthrn Ga	**22**	**15.7**	**16.7**	**0.4**	**14**	**14.4**	**14.1**	**8.4**	**56**	**13.8**	**1**	**36.9**
U S Bancorp	**23**	**15.5**	**10.9**	**0.5**	**33**	**11.9**	**8.8**	**7.6**	**46**	**18.1**	**37**	**10.1**
Mercantile Bancorp	**24**	**15.5**	**13.1**	**0.3**	**27**	**12.3**	**11.0**	**7.5**	**39**	**19.0**	**36**	**10.4**
Bank of Boston	**25**	**15.4**	**15.7**	**0.5**	**35**	**11.6**	**12.9**	**5.4**	**16**	**23.3**	**16**	**17.5**
First Interstate Bancp	26	15.4	12.7	0.6	25	12.6	10.5	5.5	34	19.8	25	13.8
Southwest Bancshares	27	15.2	11.6	0.3	15	14.1	10.5	6.4	7	28.5	32	11.6
Texas American Bshs	28	15.2	12.9	0.5	17	13.5	11.2	7.3	9	27.1	33	11.5
First Natl State Bcp	29	15.1	16.6	0.2	23	12.8	15.2	8.9	37	19.3	30	12.2
Wachovia	30	14.8	16.9	0.0	11	14.6	17.1	9.7	38	19.1	29	12.2
Southeast Banking	**31**	**14.6**	**12.8**	**0.4**	**39**	**11.3**	**10.8**	**6.7**	**29**	**20.8**	**22**	**16.2**
InterFirst	**32**	**14.5**	**def**	**0.5**	**26**	**12.4**	**def**	**def**	**8**	**28.1**	**42**	**6.9**
First Bank System	**33**	**14.4**	**13.9**	**0.5**	**31**	**12.1**	**11.4**	**6.8**	**23**	**21.6**	**40**	**9.8**
Sun Banks	**34**	**14.2**	**14.6**	**0.2**	**21**	**12.9**	**12.9**	**7.6**	**14**	**23.9**	**10**	**19.8**
Wells Fargo	**35**	**14.1**	**12.5**	**1.2**	**43**	**11.0**	**9.5**	**4.9**	**30**	**20.8**	**39**	**10.0**
Corestates Financial	36	14.0	16.5	0.3	36	11.6	15.7	9.3	55	14.4	35	11.3
Maryland National	37	14.0	12.6	0.5	34	11.8	10.4	7.4	47	18.0	34	11.4
Rainier Bancorp	38	13.6	12.1	0.2	29	12.2	10.8	6.4	31	20.3	41	8.6
BankAmerica	39	13.4	7.7	0.5	40	11.3	7.7	2.8	36	19.5	47	5.3
First Wisconsin	40	13.3	12.8	0.3	42	11.0	11.5	6.3	57	13.4	13	18.8
Mellon National	**41**	**13.2**	**13.0**	**0.5**	**38**	**11.4**	**12.1**	**6.8**	**25**	**21.4**	**31**	**12.2**
Norwest	**42**	**12.9**	**10.4**	**1.1**	**51**	**10.2**	**6.9**	**4.9**	**20**	**22.4**	**43**	**6.7**
National City	**43**	**12.8**	**11.9**	**0.2**	**27**	**12.3**	**10.4**	**7.1**	**22**	**22.1**	**54**	**3.7**
Fidelcor	**44**	**12.5**	**21.0**	**0.3**	**48**	**10.6**	**17.4**	**9.4**	**60**	**9.9**	**14**	**18.7**
Society	**45**	**12.3**	**12.4**	**0.3**	**41**	**11.1**	**10.7**	**7.3**	**24**	**21.6**	**49**	**5.1**
Continental Illinois	46	12.1	6.8	0.7	49	10.6	6.5	2.6	13	24.2	51	4.0
NBD Bancorp	47	11.6	10.7	0.2	47	10.7	10.0	6.9	51	17.2	45	6.3
Crocker National	48	11.6	5.3	0.2	52	9.3	5.4	2.5	26	21.3	46	6.0
Shawmut	49	11.4	10.6	0.3	44	10.8	9.9	4.9	33	19.9	7	21.1
Centerre Bancorp	50	11.3	7.3	0.3	50	10.5	6.5	4.1	27	21.2	50	4.9
Comerica	**51**	**11.2**	**10.8**	**0.1**	**45**	**10.8**	**11.1**	**5.9**	**34**	**19.8**	**52**	**3.8**
California First Bnk	**52**	**10.8**	**8.1**	**0.1**	**56**	**8.7**	**8.0**	**4.0**	**15**	**23.4**	**53**	**3.7**
AmeriTrust	**53**	**10.8**	**9.6**	**0.0**	**46**	**10.8**	**9.6**	**10.1**	**58**	**13.2**	**48**	**5.2**
Michigan National	**54**	**10.2**	**8.2**	**0.3**	**57**	**8.7**	**7.8**	**3.7**	**50**	**17.3**	**59**	**0.2**
Manufacturers National	**55**	**10.1**	**12.5**	**0.2**	**53**	**9.3**	**11.6**	**6.3**	**45**	**18.2**	**56**	**0.9**
Northern Trust	56	10.0	6.4	0.1	54	9.2	6.2	3.1	42	18.8	55	3.6
First Chicago	57	9.4	11.6	0.5	58	8.6	9.9	4.7	44	18.6	58	0.5
Harris Bankcorp	58	9.3	8.7	0.1	55	8.8	8.2	4.2	43	18.7	57	0.7
BanCal Tri-State	59	9.2	13.7	0.3	59	7.7	11.8	6.2	59	12.9	44	6.4
BancOhio	60	6.9	4.8	0.1	60	6.8	5.2	2.9	52	16.6	60	–3.4
First Pennsylvania	61	def	def	3.6	61	def	2.7	def	61	3.5	61	P–D
Medians		**14.6**	**12.9**	**0.3**		**12.1**	**11.3**	**6.9**		**20.3**		**12.2**
Industry medians		14.7	13.2	0.3		12.0	11.3	6.7		20.4		12.2
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. def: deficit.

Continental Illinois.

Further energy-related losses will occur in 1984, but the worst may be over. By contrast, there's still great concern about loans to the developing countries. These huge liabilities are more than half again as large as the total capitalization of the U.S. banking system and more than twice the capital of the nine largest U.S. banks.

This is causing some powerful critics to say that banking has become too important a matter to leave to bankers. The pickle heir, Senator John Heinz (R–Pa.), seems to think the politicians should have more say. He has introduced a bill to end the blurring of distinctions between banks, insurance companies and brokerage firms. He also is working on a bill that would put a moratorium on mergers between banks and nonbanks. How these would make for fewer problem loans is not clear, probably not even to the senator himself. The fact is that some banks do better sticking strictly to banking while others thrive in a variety of businesses. All the laws in the world won't save dumb bankers from dumb mistakes.

"We think the best business for us is basic banking, now and in the future," says John Medlin Jr., president and CEO of conservative Wachovia, representing the straight-line banking point of view. But Security Pacific Chairman Richard Flamson III takes an opposite point of view: "Our strong profit growth reflects our balanced, broadly based diversification of financial services," he says.

Senator Heinz ought to understand that either approach, if managed well, can bring success. According to the Forbes Yardsticks, Security Pacific's return on equity over the last five years has averaged 16.9%, slightly ahead of Wachovia's 14.8%. Yet Wachovia's return on total capital over the same period has been 14.6%, compared with an almost as good 13.4% at Security Pacific.

But Heinz is not alone in his desire to stop, or at least slow down, banking deregulation and subject the banks to stricter control. An Administration task force seeking ways to streamline overlapping bank regulatory agencies is making little headway. Although the current banking crisis is providing an opening to those who dislike the idea of free enterprise being really free, the trend toward deregulation will not be permanently reversed. "These attempts to reverse the trend are just a wiggle, a twist in the trail," says Edward Crutchfield Jr., president of North Carolina's First Union.

But there is no getting away from the fact that bankers have made some rotten loans and that in many cases they should have known better. As a means of making them more careful in the future, the Federal Reserve, the Federal Deposit Insurance Corp. and the Comptroller of the Currency will be establishing stricter guidelines as to when reserves must be set aside for international loans that are restructured or nonperforming. In other words, they don't want banks sweeping mistakes under the rug and hoping for the best. At the moment the individual banks have wide latitude in deciding when a loan is nonperforming. As a result, there are big variations. Some banks classify loans as nonperforming when they are in arrears for 30 days. More charitable or more hard-pressed institutions give their clients, and themselves, the full 90-day grace period allowed by law.

Banks also determine how much to set aside as reserves. Conservative banks often set aside more than their aggressive counterparts. At J.P. Morgan, for example, reserves are 1.39% of total loans. At Citicorp, by contrast, the figure is only 0.83%.

Curiously, the present problems are speeding, not slowing, the rash of mergers in banking. Why? Because bigger banks, presumably, are stronger banks. "In 1984 interstate banking will take a giant step toward reality," predicts CoreStates Financial Corp Chairman G. Morris Dorrance.

Indeed, regional banking zones in New England, the Pacific Northwest, the midatlantic, the Southeast and the Midwest may soon become a reality. A bill recently introduced by Jake Garn (R–Utah), chairman of the Senate Committee on Banking, Housing & Urban Affairs, would prohibit the 25 largest banks from merging with the largest insurance companies, securities firms, real estate companies and other financial organizations. On the other hand, it would go counter to Senator Heinz' straitjacket bill and allow banks to engage in a wide range of nonbanking financial activities. So at the moment the picture is mixed, although the long-term trend is clear: deregulation of the banking system.

None of this political back-and-forth had much effect on bank earnings last year. In early 1983 earnings at many big banks were up because margins widened as interest rates fell. Banks were also flush with funds pulled in by the new deregulated money market accounts. But as the year progressed, corporate cash flow picked up, reducing the need for costly bank borrowing. So earnings at the big commercial banks took a tumble late in the third quarter and posted a modest recovery in the fourth.

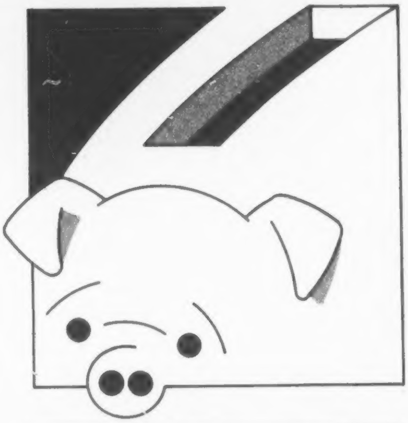
Earnings at many regional banks, by contrast, held up much better through the year-end. The outlook for regional and small banks in 1984 is even brighter because a recovery in capital spending and continued heavy consumer spending are likely to push up domestic loan volume. ■

What if the sky falls?

The numbers are enough to put the fear of God in you: Brazil owes U.S. banks some $22 billion, out of its $90 billion in total foreign debt. Argentina owes U.S. banks $8.6 billion, out of its $40 billion borrowed overseas. Data Resources, Inc. predicts serious results for the U.S. were both nations to stop making payments for a year to a year and a half: a loss of $30.2 billion from GNP and nearly 500,000 jobs, an increase of $10.2 billion in the budget deficit and an increase of 0.74% in the federal funds rate.

The problem is serious, but unlikely to come to that. In international banking the golden rule is: The bigger the problem, the less likely it will occur. And the bigger the culprit, the less likely he will be punished. That means a big bank won't go bust. It might experience big losses, however. The Fed won't do much about those, but it will find ways to keep the banks solvent. How? Bailing the banks out at discount on the bad loans would be one way. That would play hell with bank earnings but not with the economy. "Sophisticated investors are worried about earnings streams. Nobody is very worried about a big bust," says A.G. Becker Paribas analyst George Salem. A cynic might say that small lenders and small businessmen are punished for their mistakes but that the big ones get away with it. The cynics would be correct in this case.—T.O.

Thanks to Congress, thrifts are loaded with exotic new powers. So what are they doing? Writing mortgages, and loving it.



The thrifts

By Michael Cieply

REMEMBER WHEN THRIFTS were restricted by law to the mortgage business and complained bitterly of being forced to borrow short and lend long? So, in October 1982, they got their way. Congress, under the auspices of the Garn-St Germain deregulatory act, freed S&Ls to invest in such racier pursuits as equipment leasing and commercial loans. Armed to the teeth with new lending authority, S&Ls enter the year packing about $670 billion in largely deregulated deposits and not less than $2 billion in fresh stockholders' equity. To put things in perspective, that is three times the total amount of equity the industry raised between 1975 and 1982.

So, are the thrifts breathing fire? Do they stand poised to lay waste to the financial services landscape? On the contrary, most S&L executives are now purring sweetly about the rediscovered virtues of home mortgage lending.

Over 75% of thrift assets and a significant 78% of new investment remain in mortgage-related activity. S&L mortgage commitments rose more than 120%, to a record $120 billion, in 1983. All this bustle sent thrifts into the black, with $1.1 billion in first-half profits, for the first time since 1980.

That concentration on mortgages represents choice, not necessity. One indication is that Great Western, long an industry leader, recently dismantled its newly staffed commercial credit department without bothering to make a single loan. "We plan to remain housing specialists," proclaims GW's Chairman James Montgomery. The $12.5 billion (1983 deposits) Los Angeles-based thrift could post profits as high as a record $97 million in 1984 by sticking close to the mortgage business.

Even an activist like First Nationwide Financial Corp. Chairman Anthony Frank now claims the old ways are best: "Home lending has got to be the most sensational business there ever was," says Frank, whose San Francisco-based S&L is 82% owned by National Intergroup, Inc., formerly known as National Steel. "We make safe loans, they're secured, and we deal with individuals. We're wonderful institutions."

What's going on, you ask? For years the thrifts complain about being tied down to mortgage lending. Then the

The thrifts

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Fin Corp of America	1	42.8%	82.0%	0.9	1	25.3%	52.7%	9.8%	1	58.3%	1	61.2%
Golden West Finl	2	14.6	48.3	0.3	2	12.7	39.6	8.3	3	31.7	3	0.6
City Federal S & L	3	9.5	21.7	0.0	3	9.6	21.2	5.3	2	38.8‡	2	11.5‡
H F Ahmanson	4	4.2	12.6	0.2	4	4.0	11.6	4.6	9	17.9	4	–16.7
Gt Western Financial	5	2.8	5.6	0.6	5	3.9	6.1	2.7	8	19.1	5	–23.0
Gibraltar Financial	6	def	21.0	0.3	6	1.0	18.9	4.6	6	21.4	8	P–D
Imperial Corp of Am		**	def	0.8		**	def	def	10	13.4‡‡	8	P–D‡‡
Calif Federal S&L		**	**	**		**	**	6.2	5	26.0‡‡	6	–24.9‡‡
Glendale Federal S&L		**	**	**		**	**	4.3	4	26.8‡‡	7	–29.1‡‡
Home Federal S&L-Cal		**	**	**		**	**	2.8	7	20.7‡‡	8	P–D‡‡
Industry medians		6.9	21.0	0.3		6.8	18.9	4.6		23.7		–24.0
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. ‡‡Three-year growth. P–D: profit to deficit. def: deficit. **Not available; not ranked.

minute they get the right to branch out of it, they start singing the praises of mortgage lending again. Well, it's not as perverse as it might seem. What's happened is that in the interim the economics of mortgage lending have improved dramatically. Falling inflation reduced pending losses on old mortgages. Lower interest rates boosted demand sharply for new loans. Meanwhile, bloated home equity from the 1970s is finally turning liquid as the housing market improves on lower interest rates.

Look at it from the thrifts' point of view. Suppose, to be mildly optimistic, that interest rates drop a notch—say, an entirely possible 150 basis points to 12%. Say rates manage to stick at that level at least through the election. Analysts figure that could cause mortgage demand to jump another 50% this year, perhaps doubling profits for the bigger, well-managed companies in 1984.

But are thrifts merely drinking of the same poison that almost killed them in the last downturn? Not if you believe the industry mavens. "You have to understand that the economics of mortgage lending have changed radically in the last year," explains Gibraltar Financial Corp. Vice President of Corporate Development William Barger. "The AML [adjustable mortgage loan] has finally arrived."

Adjustable loans, typically guaranteeing about a 2-point spread over cost of funds, now account for a heartening 60% of new mortgage commitments by S&Ls, up from 28% as recently as July. "We've found the bells and whistles to make it attractive," says Dennis Jacobe of the U.S. League of Savings Institutions. Maybe the loudest bell is the fact that high fixed-rate interest—about 13% through most of the summer—compares unfavorably at the moment with adjustables, which go for as little as 10%.

A big player like California-based H.F. Ahmanson's Home Savings of America is pushing hard to convert its old fixed-rate portfolio to adjustables at the breakneck pace of 2.6% a month. Ahmanson hopes to have an impressive 50% of its existing loans in adjustables by next year. Great Western figures it should have 60% of its portfolio in variable rates before the end of 1984.

But not everybody has taken the

The hot money

One little-noticed thrift statistic has FHLBB Chairman Edwin Gray doing a slow burn. During the first six months of 1983, "brokered deposits" at S&Ls shot up 75%, to about $16 billion, or 3% of total deposits. That was enough to send Gray marching before Congress with a sharp complaint about "back door entry" by the cash management firms to the federal deposit insurance system.

Brokered deposits are big lumps of highly liquid money placed in banks or S&Ls by third-party intermediaries, including money funds. Handling that kind of wholesale money is hardly new for the thrifts. But deregulation allowed the depositors to collect a negotiated interest rate, and still enjoy federal deposit insurance, simply by breaking those deposits into $100,000 increments. Thus is your friendly money fund salesman able to promise that your fund shares are as safe as your S&L deposits.

FDIC Chairman William Isaac (left) *and FHLBB Chairman Edwin Gray*
A warning shot for the money brokers.

Example: Merrill Lynch has a tie-up with 12 S&Ls, which agree to take between $10 million and $1 billion each in brokered money. In this way Merrill can shoehorn as much as $1.2 million per customer into insured accounts of $100,000 or less, one insured account for each S&L in the network. Naturally, ML takes full advantage of its muscle to get the highest possible rates, while keeping the names of depositors hidden from the thrifts, so S&Ls don't shop their customer base.

Some thrifts are suspicious of this hot money. "Any broker holds the institution hostage," says one S&L chief who declined to sign on with Merrill Lynch. "One day they can tell you, 'Hey, 15% of your deposits are maturing, and instead of a 1-point fee, I need 2.' Can you afford to have those deposits withdrawn?"

Gray contends that brokered money tempts S&Ls to hype their growth and take big loan risks without bothering to beef up underlying net worth. He may have a point. In 1981-82 brokered funds were a significant factor in 35 mergers of troubled S&Ls, which relied on third-party money for as much as 70% of deposits. Moreover, Gray fears that some newly chartered thrifts will attempt to operate as "sixth-floor shops," using no conventional savings, but only federally insured brokered funds.

So far, it's all legal. "But insurance is finite," Gray angrily points out. "We can't serve as guarantors for the whole financial system." Nor should they.—**M.C.**

adjustable pledge. Los Angeles-based Financial Corp. of America, which has posted a 58% average revenue growth and 43% average return on equity for the last five years—in part by writing lots of high-risk loans during the downturn—is still lending heavily at fixed rates. That means $22 billion (1983 assets) FCA, the nation's largest S&L since its acquisition of Mark Taper's First Charter Financial Corp. in August, will have to sell at least $8 billion worth of loans on the secondary market in 1984, or face whiplash should rates jag upward.

Happy as they are to discover that they can make money again in their basic business, the S&Ls are not ignoring their new freedom. Not surprisingly, the S&Ls that have ventured most aggressively outside the mortgage field tend to be found where the state regulatory mood is most liberal: in Florida, Texas, Ohio, Colorado and, above all, freewheeling California, which harbors 23% of the nation's thrift assets. Since January 1983 state-chartered California S&Ls can invest up to 100% of assets in just about anything, from building apartments to owning and operating hot-dog stands. California S&L Commissioner Lawrence Taggart says he is reviewing 120 applications for new state S&Ls and claims that at least five big federal institutions, including $3.5 billion (1983 deposits) Gibraltar, are toying with conversion to the wide-open state charter.

Taggart can expect sharp opposition from far more conservative Edwin Gray, since last May chairman of the Federal Home Loan Bank Board. Gray's fear is that California-chartered gamblers might dump undue risk on the Federal Savings & Loan Insurance Corp., whose $7.5 billion trust fund supported 70 assisted mergers in what is recalled as "the holocaust" of 1981-82. Gray has a point. Why indeed should federal insurance intended for home mortgages be used to cover aircraft and hotel lending? Last year Gray delayed insurance coverage for some new California thrifts by pushing more conventional S&Ls to the top of the application pile. More recently, he posted FSLIC access rules so stringent that California might conceivably be forced to set up its own insurance system.

Meanwhile, Gray hints that, pending recommendations from a George Bush-chaired task force on the status of U.S. depository institutions, S&Ls straying too far from home lending could find themselves shunted to regulation by the less-accommodating Fed, and thus cut off from long-term FHLBB advances.

Such threats, however, do nothing to dampen the enthusiasm of David McDougall, administrative vice president of $1.2 billion (1983 deposits) Beverly Hills Savings & Loan, which has used its California-endowed powers to the hilt. "What we call 'activity income' [from new ventures] accounts for 25% of gross, and we hope to exceed that level this year," says McDougall. Since 1982 Beverly Hills has sold half its branch system, acquired a pension administration business and plunked over $200 million into direct real estate investment. Result: 1983 per share profits were up an estimated 27%, excluding extraordinary gains from asset sales in 1982.

If most S&Ls are prospering at the moment, McDougall knows the real test will come when tough times return. "Cycles are more frequent now and more severe than they used to be," he warns. "Trouble will come again. So this is the time to do lots of fixing."

That, in fact, is precisely what's happening. Prudent S&Ls are selling old loans, rigorously matching asset and liability maturities and, above all, chasing new capital in the equity markets. Led by the Philadelphia Saving Fund Society, which raised a record $394 million initial public offering in September, 60 mutual-form S&Ls and savings banks converted to public stock ownership in 1983. Conversions should work wonders for industry net worth, which declined 27%, to $24 billion, in the two-year debacle. But overall figures are cold comfort to the would-be converters caught napping when S&L stocks fell 35% from their May 1983 peak. One noteworthy laggard: New York's $6 billion (1983 deposits) Dime Savings Bank, the nation's ninth-largest thrift, which still anticipates a public offering.

-ALWAYS-
COME OUT
AHEAD.

Marketing AMLs in California
"We found the bells and whistles."

A kindly nod from the market could bring Dime and as many as 100 more new conversions out of the woodwork. If so, stock-picking among thrifts will become considerably more sporting than it was in the old "three-six-three" days, when S&L officers took in money at 3%, loaned it at 6% and hit the golf course by 3 o'clock.

Some tips on wading through the thickening morass of publicly traded thrift institutions:

- Worry about talent. Deregulation leaves plenty of room for mistakes. Says McDougall of Beverly Hills: "You can't turn old, blue-suited loan officers into real estate wizards overnight." Hence, even pros such as Gibraltar are raiding the commercial banks to staff new ventures.
- New issues are expensive. Fresh conversions outperformed previously traded S&Ls in 1983, but they are increasingly pricey. Why pay an infinite multiple for a new stock like Fortune Federal of Florida, which posted losses of $2.03 per share for the last 12 months, if you can pick up Los Angeles' profitable Ahmanson at 8 times earnings?
- Beware the fixed-rate lenders. Lots of S&Ls still make fixed-rate loans, piously claiming they will have no trouble packaging those hot potatoes for immediate sales on the secondary market. "It's not always true," cautions Shearson/American Express analyst Allan Bortel. Packaging loans is a tricky business, largely dependent on tiny interest-rate fluctuations. Ham-handed players can be stuck with dead weight if interest rates suddenly pick up.

How you feel about the future of thrifts, however, fundamentally depends on how you feel about interest rates. The big question still remains: Will the rates hold until balance sheets are fixed and the old, cheap portfolios are consigned to history? That, say the experts, could take at least two more years. Ventures First Nationwide's Frank: "If the present climate lasts through 1985, then the drag is eliminated and we're a whole new industry."

If not? He shrugs reassuringly, contemplating the drive toward variable rate mortgages, and says: "Every month that goes by is one more piece of armor." ■

An economic recovery is long overdue for the insurance industry, but don't expect it to arrive before the end of the year.

Insurance

By William Baldwin

THE ECONOMIC RECOVERY has supposedly been under way for a year. Isn't it about time the insurance industry hit bottom? For the fourth time in a row, current profitability *(see p. 64, "Return on total capital" column)* has lagged the five-year average. Property/casualty stocks lagged the market for most of 1983. Earnings in the life insurance industry have been deteriorating since 1980. "There isn't much more bottom left," says Robert Haugh, president of St. Paul Cos., a diversified underwriter that specializes in medical malpractice liability and other commercial lines, where price competition has been devastating. But his mood is more prayerful than confident. According to Haugh, prices still hadn't firmed up at year-end, thus dooming the property/casualty underwriters to at least another six months of disappointing results. But maybe within a year things will start to look up. "The signs are there for improvement, in late 1984 or 1985," says Haugh.

It has been a rough year for stockholder-owned insurance companies. Aetna, the largest of them, knuckled under to an SEC complaint that it was overstating earnings by counting future tax-sheltering benefits before they were in the bag. For the industry as a whole, Hurricane Alicia cost $700 million. Baldwin-United's collapse scared away annuity buyers. Property/casualty underwriting margins (profits before investment income) are averaging a disastrous –11% and several companies aren't earning enough to cover their dividends.

For life insurers the big news is congressional action that will double their taxes *(see box, p. 66)*.

The insurance industry is supposed to be among the most stable of all employers, yet Continental Corp. and CIGNA have had to lay people off.

But there is something inherently cyclical about this business. Bad times lead to belt-tightening and rate-raising, which leads to prosperity again. And then the process repeats: High profits attract competition and make people sloppy. The competition factor is especially harsh now because so many outside corporations are hot on getting into "financial services," of which insurance is a major part.

Hurricane Alicia

As if there weren't enough losses.

The result, says John Mascotte, chief executive of Continental Corp.: "Too many dollars of capital are chasing too few dollars of risk."

Mascotte, who joined Continental in 1981 and took the top job a year ago, has felt the pain. His company reported net income of $2.62 a share for the first half of 1983. Although that seemed comfortably above the $1.30 in dividends paid in the period, most of those earnings were either capital gains or a paper item, negative income taxes. Pretax operating income was 17 cents a share, a pitiful 1% annualized return on equity.

Old-line agency underwriters like Continental suffer particularly from inefficiencies and excess capacity in their distribution systems, whereas independent retailers offer policies from several competing underwriters. For more than a decade independent agents have been losing ground to "direct" underwriters that retail through their own employees—companies like Sears, Roebuck's Allstate and the highly profitable Geico, which has been near the top of the Forbes Yardsticks for years.

Belatedly, the agency writers are changing with the times. Since Mascotte's arrival, Continental has confronted a fourth of its 8,500 agents with demands that they improve their mix of business (i.e., get their overall loss and expense ratios down) or drop out. Terminating or rehabilitating the subpar agents should save the company five points of underwriting profit margin—an amount so impressive it's a measure of how urgently it needed to be done. But it will be a few more years before such efforts show up on the bottom line, since the costs of servicing old policies will continue. Meanwhile, Mascotte has trimmed employment at Continental itself by 2,000, or 12%, through attrition, early retirement and firings.

Of course, rather than using it to chase after unprofitable business, an insurer can use some of its capital to buy in its own stock, as Geico, St. Paul, USF&G and Capital Holding, a life insurer, have done. That should someday result in better returns for the capital that remains at risk.

The industry could, in fact, stand a bit more of this capital-shrinking. State regulators would permit casualty underwriters to collect annual premiums of at least double their capital base. That compares with the current premiums-to-capital ratio of about 1.7. Capital, in short, is inefficiently used in this industry.

So long as that premium leverage stays low, casualty underwriters stay

hungry for business, which, of course, helps keep rates low. But one glance at the critical "combined ratio"—the sum of operating expenses and expected claims, expressed as a percentage of premium income—suggests that they ought to try to break this vicious circle. In 1982 the combined ratio hit 108%—a full eight points below break-even. That means the industry had costs 8% higher than revenues and stayed profitable only through the income reaped from investments. Things aren't getting much better. "The industry is now in the fifth consecutive year of a downturn," says Prudential-Bache analyst Herbert Goodfriend, "with no likelihood of improvement for 1984."

Insurance

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Life and accident												
First Executive	1	25.3%	18.2%	0.0	1	24.6%	20.5%	2.6%	1	91.8%	1	108.7%
Combined Internatl	2	19.3	16.3	0.0	2	19.4	16.1	9.3	8	15.1	9	8.5
Gulf United	3	15.3	14.1	0.6	6	12.5	10.2	8.0	4	24.0	4	13.3
Business Men's Assur	4	14.7	13.9	0.1	4	14.0	12.8	10.2	13	5.4	2	30.9
Provident Life & Acc	5	14.4	12.4	0.0	3	14.4	12.4	7.0	14	4.6	8	9.1
American Family	6	14.4	13.7	0.1	8	12.2	8.8	4.3	3	25.3	14	1.2
Capital Holding	7	14.2	14.0	0.3	5	13.7	11.8	8.0	7	18.4	6	11.0
USLIFE	8	14.0	10.8	0.5	12	11.4	9.0	8.3	9	10.8	11	7.6
Torchmark	9	12.9	13.6	0.3	7	12.3	11.8	6.9	6	18.5	7	9.3
Life Investors	10	12.4	11.1	0.1	11	11.7	10.3	4.8	2	25.6	3	14.0
Jefferson-Pilot	11	12.2	9.9	0.0	9	12.1	9.9	10.0	10	9.2	10	7.8
American Natl Ins	12	11.8	11.5	0.0	10	11.8	11.5	12.2	12	7.2	5	12.4
Washington National	13	10.8	7.3	0.1	13	10.0	7.1	2.9	11	7.4	12	6.0
Equitable of Iowa	14	9.1	8.9	0.1	14	8.4	8.8	4.9	5	18.6	13	5.3
Medians		14.1	13.0	0.1		12.3	10.9	7.5		16.8		9.2
Fire and casualty												
GEICO	1	38.6%	24.9%	0.4	2	22.2%	20.4%	10.7%	12	5.0%		D–P
Mission Insurance	2	26.6	12.4	0.1	1	23.5	11.7	6.4	1	23.0	1	26.1%
General Re	3	21.8	18.7	0.0	3	21.3	18.4	13.4	4	15.9	3	22.3
American Express	4	20.7	21.6	0.6	5	17.3	15.9	7.3	3	18.3	6	14.6
Ohio Casualty	5	18.9	12.3	0.0	4	18.6	12.3	6.7	8	12.2	7	13.5
Hanover Insurance	6	17.6	13.2	0.0	6	17.2	13.1	6.5	7	13.0	4	19.9
USF&G	7	16.7	11.7	0.0	7	16.7	11.7	7.0	9	10.3	9	10.0
Kemper	8	16.1	9.5	0.0	8	16.5	9.6	3.3	2	20.9	7	13.5
Chubb	9	16.0	13.0	0.1	9	15.0	11.4	5.6	10	9.3	5	14.8
City Investing	10	13.0	9.7	1.2	11	9.2	8.5	2.2	5	15.3	10	9.5
Berkshire Hathaway	11	9.4	7.7	0.2	10	9.4	8.0	11.9	6	13.2	2	25.0
Continental Corp	12	9.0	1.9	0.0	12	8.5	2.0	[illegible]	11	7.4	11	0.4
Medians		17.2	12.4	0.1		17.0	11.7	6.6		13.1		14.6
Multiple line												
Teledyne	1	26.2%	12.0%	0.3	2	19.8%	10.4%	8.7%	15	7.9%	2	24.5%
Fremont General	2	23.1	def	0.5	4	18.3	1.5	def	1	29.6	11	10.1
Loews	3	22.5	22.2	0.5	11	12.6	14.1	5.8	9	11.9	3	21.8
American Intl Group	4	21.7	19.0	0.0	1	20.7	18.6	15.7	2	18.5	4	21.7
Old Republic Intl	5	20.1	17.6	0.3	3	19.1	15.4	14.5	5	14.8	5	16.8
Farmers Group	6	18.4	16.4	0.0	5	18.2	16.2	17.7	4	15.0	6	15.0
CNA Financial	7	18.2	14.7	0.2	12	11.7	11.6	4.8	14	8.4	1	105.3
American General	8	16.5	14.9	0.4	7	14.4	11.0	7.2	7	12.8	7	14.0
St Paul Cos	9	15.6	12.4	0.1	6	14.6	12.1	7.1	11	10.8	10	10.5
Safeco	10	15.1	13.6	0.3	10	12.8	11.7	7.5	10	11.7	8	12.4
Aetna Life & Casualty	11	14.7	9.5	0.1	8	13.8	8.8	2.8	6	13.2	12	9.1
Travelers	12	14.1	11.2	0.0	9	13.7	11.1	2.8	12	10.4	9	11.8
Lincoln National	13	11.3	10.6	0.2	14	10.3	9.4	4.0	8	12.4	13	8.6
Colonial Penn Group	14	11.1	13.3	0.0	13	11.1	13.3	3.6	3	17.7	15	–7.6
CIGNA		**	9.4	0.1		**	8.9	3.6	13	8.9‡	14	3.9‡
Medians		17.4	13.3	0.2		14.1	11.6	5.8		12.4		12.4
Industry medians		15.5	12.4	0.1		13.9	11.6	6.9		13.0		12.4
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. D–P: deficit to profit. def: deficit. **Not available; not ranked.

Property/casualty has always had its cycles, roughly coincident with the economy's ups and downs, but five years is exceptionally long.

In a curious way, today's high interest rates are partly to blame. Yes, insurers are lenders, not borrowers, but that's the point. Greedy for more money to lend out, they stretch themselves to attract premium dollars. And shaft themselves in the process.

Here's how it happens: Suppose an underwriter has an opportunity to collect $100 of premium today against $120 in claims three years hence. Should it take the business? Since yields on safe Treasury securities are about 10%, yes. A mere $90 set aside now will grow to $120 in three years, enough to pay the claims. In reality, then, the insurer is garnering a $10 underwriting profit this year. The interest earned on the $90 reserve doesn't represent true profit but rather belongs in some sense to the claimholders.

Trouble is, under the archaic accounting system of the insurance profession, this piece of business would probably be booked as a loss in the first year. That is because the full $120 of future payouts would be counted as an underwriting cost. The resulting underwriting loss would be offset by investment income, of course, but much of that income would be on reserves from policies sold in other years. In short, there is a mismatch of revenues and expenses on each piece of business, making it difficult for the investor to know how profitably an insurer is operating at any given point. If all this weren't complicated enough, underwriters can further muddy the waters by reinsurance transactions, effectively accelerating the reporting of what would otherwise be, under traditional accounting, next year's income.

To go back to the hypothetical example: The underwriter might dispose of that $120 future loss by reinsuring it away at a cost, say, of $90. The reinsurer would then pick up the three years of investment income. The original underwriter would improve this year's reported profits by $30, and would report correspondingly lower profits in future years. Aetna, American Express' Fireman's Fund and CIGNA's Insurance Co. of North America are among the companies that used this controversial technique to puff up depressed earnings.

Complicated? Of course. But it boils down to a situation where few companies are making real money. "Smart people can sit down and say, 'I can write medical malpractice at 137.5% [combined ratio] and make a lot of money because the average payout is going to be over an eight-year period,' " says Frank Munson, president of General Re. "The big mistake was that in trying to write it at 137.5% they ended up writing it at 180%." For 1982 Aetna reported a 160.6% combined ratio on its general liability lines, the ones with the runaway jury awards and other unpredictables. No wonder the company was tempted to shuffle its loss reserves a bit.

The solution, in Munson's view, would be to go back to the good old days of sound underwriting practices, meaning: Make money on the underwriting and look upon investment income as icing on the cake. But the good old days are not around the corner. Says Munson: "The commercial insurance buyer is an infinitely more sophisticated animal than he was years ago. He wants some of that investment income somehow." The big commercial policyholder that doesn't get a bargain from the underwriter can take investment income by self-insuring, via a "captive" insurance subsidiary. Captives—most of them offshore to avoid regulation and taxes—already account for 6% of the $44 billion commercial property/casualty market. "We're seeing captives beginning to look at new areas: political risk, interest-rate exposure, warranties, life insurance on retirees," says Felix Kloman, president of Risk Planning Group, a Darien, Conn. firm that advises captives. Kloman's optimism should be underwriters' pessimism. ■

Hit me again

The bad news is that, under proposed legislation, life insurers' taxes will almost double in 1984, to $2.9 billion. The good news is that, without the legislation, taxes would go up even more.

Life insurance taxation, always one of the most complex parts of the federal tax code, has been in a state of flux for two years. In 1982 Congress scrapped the old system, enacted in 1959, because of the huge distortions it created during high inflation. A key formula in that law begins to break down when bond yields exceed 6%.

For 1982 and 1983 a stopgap tax system was enacted, intended as a transition—not so much in tax rates, as in how taxable income was computed—between the old system and what was expected for a new one. Under the 1959 act, investment income was the principal factor. Under the proposed reform, emphasis is on operating income more broadly defined.

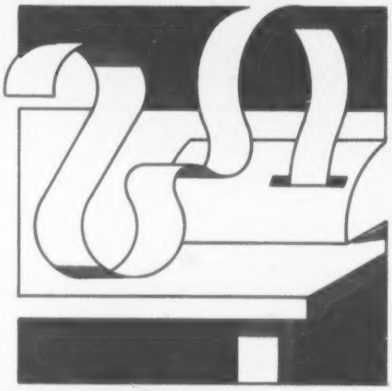
The interim measure generated about $1.5 billion a year in federal tax collections. That gave time to the industry's two camps—the mutual, or policyholder-owned firms, and the stockholder-owned firms—to form a combined lobbying front for tax purposes. Certainly, the interim tax law gave them an incentive to do that, since it provided that without new legislation the industry's tax payments would jump to $3.3 billion in 1984.

After much feuding behind closed doors on Capitol Hill, the insurers agreed on a scheme that would leave mutuals picking up 55% of an overall $2.9 billion annual burden and the stock companies the remainder. A tax committee approved the deal in October, but Congress adjourned before acting on it.

The insurance industry also wants the new legislation because it clarifies tax rules for their customers. "It closes a great uncertainty as to whether the IRS is willing to treat universal life as life insurance," says Lauchlin McLean, a tax lawyer for Aetna Life & Casualty. Provided certain minimum levels of pure death protection are present, buyers of universal life won't lose the favorable tax treatment generally accorded life insurance, even though universal life incorporates some investment features, such as a buildup of cash values at money market rates.

If Congress gets around to enacting this tax revision—a touchy matter only because it has been packaged with some controversial tax provisions, such as curbs on tax-free fringe benefits and tax-exempt housing bonds—most insurers will breathe a sigh of relief. So will any accountants concerned about demand for their services. Although the measure is billed as a "simplification," it is over 100 pages long.—W.B.

Was 1983 the peak of the boom for the brokerage business? If so, it was surely some peak.



Brokerage

By Richard L. Stern

EVERY YEAR, not long after Thanksgiving, the nation's top brokers gather at the Boca Raton Hotel in Boca Raton, Fla. to ponder the future of their profession at the meeting of the Securities Industry Association (SIA). Few other industry groups in this country can field as many millionaires at one conclave.

Rarely have the millionaires, near-millionaires and would-be millionaires been in a cheerier mood. Despite a sharp dropoff in earnings during the second half at the big publicly held firms like Merrill Lynch, Paine Webber and E.F. Hutton, 1983 was a dream come true for most of the industry. In fact, industry earnings overall are expected to be 50% ahead of 1982's record. So the entry of over 700 banks and thrifts into discount brokerage services seemed to hurt Wall Street hardly at all.

Take the large privately held investment banking and trading firms like Goldman, Sachs; Drexel Burnham Lambert; Bear, Stearns; Morgan Stanley; or Salomon Brothers (now a subsidiary of the publicly traded Phibro). Many of them are far less dependent on trading volume than the so-called wirehouses, whose latest 12-month profitability numbers on the Yardsticks below were sullied slightly by a decline in trading volume in equities in the second half. So some of these private firms enjoyed pretax returns on equity of as much as 100% last year, incredible as that may seem. Yes, 100%. And these are firms with up to $500 million in equity capital. "That 100% is not an outrageous number at all," says Robert Linton, chairman of Drexel Burnham Lambert Inc. and 1983 chairman of the SIA. How well did privately owned DBL do? Linton won't say, except to concede that it bettered the industry average figure, which was a not-to-be-sneezed-at 32.8% in the first half of the year.

This also means that the hundreds of partners in brokerage houses—from East Coast giants like Goldman, Sachs to smaller but substantial regionals like San Francisco's Montgomery Securities—personally pulled in $1 million or more, sometimes much more, apiece. Only the entertainment business and, possibly, sports produced so many seven-figure incomes last year. Professional traders on equity, bond and commodities desks easily made upwards of $200,000 and $300,000. The chief traders? In some cases more than $1 million. Compensation for analysts was never better, ranging from $250,000 to $500,000 for the top ones.

Take Jim Chanos, for example. He is the analyst who became a Wall Street star in 1983 when he discovered Baldwin-United was a basket

Brokerage

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
E F Hutton Group	1	30.3%	31.1%	0.7	2	24.8%	22.7%	6.8%	3	34.3%	2	30.3%
First Boston	2	27.6	29.5	0.2	1	27.6	29.7	6.5	1	44.0	1	32.2
Merrill Lynch	3	22.9	26.9	0.5	3	18.5	20.3	7.1	5	29.2	3	25.7
Paine Webber	4	18.5	45.8	0.5	4	15.6	37.9	5.9	4	33.2	4	12.9
Donaldson, Lufkin	5	13.3	13.6	0.5	5	11.7	10.7	3.4	2	36.3		D–P
Industry medians		**22.9**	**29.5**	**0.5**		**18.5**	**22.7**	**6.5**		**34.3**		**28.0**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
D–P: deficit to profit; not ranked.

case. He was later lured to Atlantic Capital, the U.S. brokerage subsidiary of the German Deutsche Bank, for a rumored compensation package of half a million dollars a year. Chanos, by the way, is only 26.

Dealmakers and underwriters also did extremely well. So did the ordinary brokers, the people who deal with the public. Average compensation in 1983 was $75,000, up from $67,000 in 1982, according to Perrin Long of Lipper Analytical Services, Inc. That's just the average. Remember, they can earn anywhere from 30% to 40% of the commissions they bring in. A few top producers made multiples of $1 million. The 170 brokers in the New York retail office of Bear, Stearns, which specializes in wealthier individuals, "brought in $500,000 a man," says Bear, Stearns partner Jimmy Cayne.

Brokers cruising off Boca Raton

Billowing profits helped fill the sails.

Not content with huge incomes, many brokers decided to capitalize their good fortune by letting the public in on their businesses—at prices ranging from 3½ to 5½ times prepublic book value. Firms going public included RJ Financial and Quick & Reilly. If precedent holds, this could be a sign the market is near a top: Brokers have often displayed brilliant timing in going public. When Donaldson, Lufkin & Jenrette started the whole thing by going public back in 1970, right at the top of the market, many initial investors who hung on didn't break even for over a decade.

So much for the brokers' yachts. What about the customers? They fared well but not nearly as well as the brokers. The NASDAQ average, which went from 232.41 to 326.11 in

A money machine

Goldman, Sachs probably has more clients among The Forbes 500s (Sears, Ford, General Electric, et al.) than any other investment banker. It also is probably the biggest in the private placement business. And only Merrill Lynch, according to the surveys, has more top analysts. In institutional trading, Goldman is number one, according to those same surveys.

Goldman, moreover, has achieved this eminence with a minimum of the infighting that afflicts most Wall Street firms. And when did you last hear of a Goldman partner leaving for greener fields elsewhere? Indeed, this unusual harmony is a major reason for the firm's unparalleled success.

Goldman, Sachs defines success. It likely will have earned something between $350 million and $400 million before partner taxes for the fiscal year ending last Nov. 30. That's a 100% return on the equity with which it began the year. Revenues were over $1 billion, and, according to brokerage industry sources, that kind of performance is unbeatable even on Wall Street.

In a business notorious for its cyclicality, Goldman, Sachs just completed its ninth consecutive year of earnings records, according to John Whitehead, who, along with Cochairman John Weinberg, took over the reins in 1976 after the death of Gustave Levy. Unlike the big wirehouses, Goldman doesn't have to cope with the enormous overhead of doing business with the general public. Thus the company avoided the second-half slump in earnings.

The company has put together a mix of business that seemingly defies gravity. When equities are down, bonds and real estate may be up, for example. Last year the public's appetite for new issues (a market where Goldman has ranked first, ahead of E.F. Hutton and Merrill Lynch as an underwriter) weakened after August, but big companies kept selling equity, and Goldman, with its blue chip list of corporate clients, kept the cash register ringing. Two years ago it acquired J. Aron & Co., an international commodities dealer, reportedly for $100 million. While 1983 was not a good year for gold and silver, the foreign currency and coffee businesses were up, and J. Aron is a substantial currency trader and the largest coffee dealer in the world.

Whitehead is particularly proud that his staff, which now numbers 3,400, has grown more slowly than revenues and earnings. That's efficiency. Settled into a new 30-story office building in the center of the financial district, Goldman is setting its sights on the world. Goldman already owns a merchant bank in London, has a trading operation there and operates other offices in Zurich, Hong Kong and Tokyo. It will leave for Merrill Lynch the opportunity to reach the retail public at large around the world. Goldman plans to keep doing what it does best—making lots of money by dealing with the big boys and dealing with them both efficiently and effectively.—R.L.S.

June, had fallen off to 285.49 by December. Hambrecht & Quist's high-tech average went from 649.78 in January to 942.21 in June but was off to 739.22 by December.

As for the hot new issues—the ones your broker told you would be the next IBMs—it was the same story: According to Abrahamsen & Co. of Hoboken, N.J., which keeps track of initial public offerings of $5 million and more, Wall Street raised at least $10.7 billion last year. But of the 386 initial public offerings, 186 in late November were trading below their initial offering price.

Meanwhile, the public was also getting badly burned in Baldwin-United and Warner Communications and severely singed on such respectable issues as Apple Computer, Digital Equipment and Texas Instruments.

While Merrill Lynch suffered from declining trading volume in the third quarter, another major wirehouse bucked the trend. Shearson/American Express, one of the best run of the large houses before and after its acquisition by American Express, earned $34.4 million in the third quarter of 1983, compared with $33 million for the same period of 1982, the first quarter of the roaring bull market. Merrill, Hutton and Paine Webber all were down September over September. Why did Shearson fare better? In part because of tighter cost control, claims Peter Cohen, Shearson's 37-year-old president and chief executive officer.

On the block

Two years ago commodity broker Phibro paid something like 2 times book value, or about $500 million, for Salomon Brothers. The price didn't seem to make sense, for what was Phibro buying but a lot of people who could easily pack their briefcases and move across the street. Who's laughing now? Last year alone Salomon reportedly earned back that $500 million for Phibro pretax—and a lot of former Salomon partners were moaning in their martinis for having sold out so cheaply.

Nobody was selling that cheaply last year. Brokerage firms that went public—and there were eight of them—generally got a higher price in the public markets than they would have by following Salomon Brothers' lead and selling out privately. Such relatively small firms still command higher price-to-book ratios than big public companies such as Merrill Lynch and Paine Webber. Why? Possibly because investors believe smaller firms are more likely to be takeover candidates.

You can see why investors have such hopes. When Shearson/American Express bought the West Coast-based brokerage firm of Foster & Marshall and Atlanta-based Robinson-Humphrey in 1982, it paid 3.5 times book. But not every firm is as good as those two—and not every year will be like 1983 on Wall Street.—R.L.S.

What's ahead for 1984? Continued good times but accompanied by some belt tightening. George Ball, the chairman of Prudential-Bache, doubts that trading volume will go appreciably higher "because the market already has built in earnings expectations" into most of the thousands of issues that are traded. Ah, 1983. That was one for the books. ■

Rebuilding
America's
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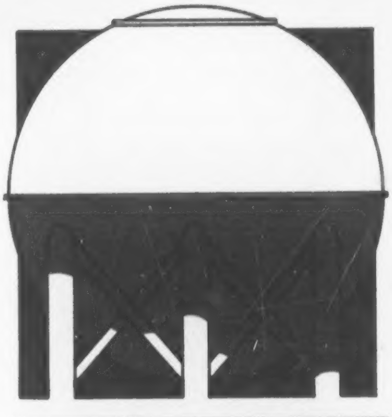
"Every bone in my body tells me the price of oil is going down, but I won't bet a nickel that it will."



Energy

By Carol E. Curtis

IF THE ECONOMY was recovering smartly in 1983, you wouldn't know it from the oil industry. Complains Raymond Mason, president of Charter Co.: "Even if the economy keeps expanding, pressures will continue to push oil prices down."

The numbers tell the story. In the 1960s, before the Arab oil embargo, the U.S. GNP was growing at 8% annually. Energy demand rose at the same pace, with oil filling virtually all of the increased demand. But last year the demand for oil actually declined in the face of a 3.5% increase in the GNP. This year looks little better. Tor Meloe, chief economist for Texaco, believes the economy will grow about 5% in 1984; demand for petroleum will rise only 1%. An economist for another oil company isn't much more optimistic. He says energy use will rise by 4% in 1984, but half of the growth will be non-oil.

A gas-guzzling 1959 Cadillac (top) *and a new, fuel-efficient Mazda*
At 8 miles per gallon vs. 20, bigger will never be better again.

Remember those "obscene" oil company profits? Where are they now? For the international oils as a group, the Forbes Yardsticks show that return on capital averaged 7.4% over the past year—down by almost half from the industry's five-year average of 13.2%.

This is not the first time that the demand for oil has dropped, of course. In 1975, right after the embargo, it fell to less than 4% as prices rose. But people got used to higher prices, and demand recovered.

This time it's different. The 17-fold increase in prices over the last decade seems to have triggered permanent changes in oil's two most important product markets: gasoline and middle distillates.

By far the most important transformation has been in the market for gasoline. About 45% of every barrel of oil refined in the U.S. is turned into gasoline. Between 1978 and 1982 the average miles driven per car per year fell 10%—from 10,050 to 9,050. That cut gasoline consumption by 500,000 barrels a day. At the same time the auto fleet was becoming more fuel-efficient. The average new American car now gets 24.6 miles per gallon, vs. 13.2 miles per gallon in 1973.

These two factors—less driving and fuel-efficient cars—have cut U.S. daily gasoline consumption by 1 million barrels. People are beginning to drive more again: One major oil company estimates that miles driven in the U.S. in 1984 will be 4.5% higher than in 1983. On the other hand, gas-guzzlers are still being replaced by more efficient vehicles. So the decline in demand looks permanent.

Oil's second most important market, middle distillates—jet fuel, residual fuel oil and heating oil—has been hit even harder than gasoline. Conservation and fuel substitution in the

Poor relation

With oil losing its markets to other fuels, you would think that the biggest gainer would be coal. Coal is plentiful, much cheaper than oil and a ready replacement for petroleum in the huge utility market.

Only it isn't happening. "The recession and conservation have hurt everybody," says E.B. Leisenring Jr., chief executive of Westmoreland Coal. Westmoreland's troubled performance of late is a good illustration of the industry's problems.

Last year the U.S. produced 780 million tons of coal, about 50 million less than in 1982. This year the National Coal Association expects a modest increase but still well below 1982.

In the early 1980s coal won U.S. market share from oil and gas in the all-important utility market, where four-fifths of U.S. coal is sold. It won converts in heavy industry, too. Over the past five years the Forbes Yardsticks show sales growing for coal companies by a healthy average of 18.8%.

But the growth seems to have stopped. Why? Environmental extremists have hurt, as has red tape. Utilities are reluctant to buck their opposition to convert to coal. So they keep burning natural gas and oil, and the public pays.

Meanwhile, 12 new nuclear units are expected to begin operation in 1984. These plants will produce cheap, clean energy, in spite of their sky-high capital costs, and will satisfy most of the modest increment in demand expected in the near future (see *Electric Utilities, p. 90)*. Coal economist Jerry Karaganis figures that the surge of nuclear capacity will hold coal use flat. If the coal industry has anything to be thankful for, it is that antinuke propagandists have so frightened the American public that further nuclear development has almost halted. Bad news for U.S. energy independence but good news for OPEC and for coal.—C.E.C.

utility and industrial sectors have cut the use of middle distillates dramatically. Electric utilities simply aren't building oil-burning power plants anymore. Heavy industry, still mired in recession, has taken equally dramatic steps. In the steel industry, fuel oil use is now one-fifth what it was five years ago. In pulp and paper, the third-largest energy consumer in the country after metals and chemicals, oil use has been cut by more than 50%. Will oil consumption come back with industrial activity? Not likely. Much of the reduction is permanent reduction, caused by switching to self-generated fuel like wood-burning boilers.

The cumulative effect has been to reduce the use of residual fuel oil by over 1 million barrels a day, and that trend is continuing.

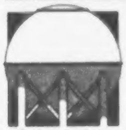
In all, oil demand has fallen by more than 3 million barrels a day be-

Energy

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
International oils												
Occidental Petroleum	1	27.3%	def	0.9	1	14.9%	3.1%	0.9%	2	21.1%	4	12.8%
Exxon	2	20.1	17.0%	0.1	2	14.5	11.8	5.1	5	13.6	3	13.4
Standard Oil Calif	3	18.4	12.2	0.2	3	14.4	9.4	5.6	7	12.4	1	14.9
Phillips Petroleum	4	18.1	10.9	0.3	4	14.0	7.7	4.1	3	19.1	6	11.3
Mobil	5	17.3	9.1	0.3	5	12.4	6.3	2.3	4	16.3	2	14.8
Texaco	6	15.4	9.0	0.2	7	11.3	7.3	3.1	6	12.5	5	12.4
E I du Pont	7	13.5	9.2	0.5	6	11.5	7.4	2.8	1	22.5	7	8.3
Gulf Oil	8	12.9	9.3	0.2	8	10.3	6.9	3.1	8	9.4	8	7.7
Medians		17.7	9.3	0.3		13.2	7.4	3.1		15.0		12.6
Other oil and gas												
Standard Oil Ohio	1	42.8%	23.0%	0.5	2	20.7%	14.5%	13.7%	7	27.5%	1	43.3%
Charter	2	35.8	3.3	0.6	1	20.9	5.3	0.4	8	27.2	6	26.1
Mitchell Energy & Dev	3	35.0	18.6	1.1	17	12.4	7.9	8.7	2	35.4	5	27.8
Texas Oil & Gas	4	33.3	31.9	0.5	3	16.1	15.2	16.1	6	27.7	3	30.2
Tosco	5	28.3	def	1.3	23	9.9	def	def	4	29.5	33	P–D
Tesoro Petroleum	6	28.1	12.9	0.2	4	16.0	10.1	1.7	14	24.0	8	23.1
Pennzoil	7	25.4	12.9	0.7	13	12.9	7.1	7.0	29	15.0	17	12.4
Dorchester Gas	8	24.6	12.7	0.9	6	14.2	7.2	1.3	1	67.2	9	20.5
Ashland Oil	9	23.0	5.7	0.5	16	12.4	5.1	1.2	31	13.5	20	11.6
Murphy Oil	10	22.3	16.3	0.2	9	13.9	11.3	5.8	24	16.9	7	23.9
Cabot	11	21.3	9.9	0.3	7	14.0	7.5	4.1	16	23.3	4	29.3
Atlantic Richfield	12	21.1	15.9	0.3	12	13.2	9.9	5.9	19	20.6	10	20.1
Louisiana Land	13	20.0	12.0	0.3	5	15.2	7.1	8.3	15	23.8	25	5.8

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.



cause of conservation. So market forces have done what neither threats nor diplomacy could do, curb the power of OPEC.

OPEC is currently producing 17.5 million barrels a day, with a capacity of 31 million. Since most OPEC member states have developed expensive spending habits, further cuts to shore up prices seem unlikely. There is so much excess capacity right now that the Iran-Iraq war has made hardly a dent. "Short of shutting down the [Persian] Gulf," says Neil Bunis, director of industry studies for Conoco, "anything less can be compensated for." A Gulf shutdown would also find the U.S. far better prepared than in the past: The strategic petroleum reserve, with all its problems, still contains 366 million barrels of oil, or 90 days' emergency supply.

The wonder is that the price of oil hasn't fallen faster. "Every bone in my body tells me the price of oil is going down," says Charter's Mason, "but I won't bet a nickel that it will." Why not? Essentially because almost everybody has a stake in keeping prices up. The oil industry because it has invested billions developing expensive deposits like those in Alaska. The industrial countries because conservation is in their long-term interest and high prices promote conservation. The U.S. because Mexico's future depends heavily on oil, and the U.S. badly needs a prosperous Mexico.

So the betting is, oil prices will hang around the present level for a while, which isn't such bad news to people who find oil. The current price of $29 isn't all that bad. The biggest gainers won't necessarily be the biggest companies—integrated giants like Exxon and Texaco. These companies get much of their oil from Saudi Arabia, and access to oil in politically uncertain Saudi Arabia has become quite a mixed blessing. Instead, firms with strong U.S. exploration and production arms and extensive U.S. oil reserves, like Standard Oil of Ohio and Superior, are looking better all the time. William Randol, international oil analyst at First Boston, explains why: "For national security and balance-of-payment reasons, there is still an infinite demand for U.S.-produced crude oil, even at $29. Every barrel that can be found will have a home."

This helps explain the excellent showings posted by U.S.-based Superior Oil. Over the latest 12 months, the Forbes Yardsticks show that Superior's net profit margin is 11.3%, vs. the industry median of 3.7%. True, its

Energy

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Standard Oil Indiana	14	19.6%	16.0%	0.3	10	13.7%	10.9%	6.3%	25	16.6%	15	13.5%
Unocal	15	19.5	14.2	0.2	11	13.5	10.4	6.3	33	12.4	14	14.6
MAPCO	16	18.9	9.0	0.8	21	10.7	5.6	2.6	3	33.2	29	2.8
Shell Oil	17	18.7	14.8	0.4	19	12.0	9.1	7.7	27	15.7	13	15.1
Sun Company	18	18.1	10.7	0.3	14	12.6	7.2	3.6	20	19.0	19	12.2
Getty Oil	19	17.9	8.3	0.2	8	14.0	6.0	3.6	9	26.1	11	18.1
Amerada Hess	20	17.4	7.4	0.7	18	12.1	4.9	2.4	28	15.0	12	15.2
Superior Oil	21	17.0	9.0	0.4	22	10.6	4.9	11.3	5	28.5	2	33.2
Holly Corp	22	16.7	10.1	0.1	15	12.6	7.9	1.5	13	24.8	22	9.7
Pacific Resources	23	16.3	7.8	1.4	24	9.8	5.7	0.5	11	25.7	18	12.3
Tenneco	24	16.3	13.1	0.7	28	9.4	7.4	4.9	26	16.2	26	5.6
American Petrofina	25	15.9	8.3	0.3	20	10.9	6.4	2.2	30	14.9	24	8.1
Crown Central Petroleum	26	15.6	0.2	0.4	25	9.7	1.5	0.1	17	22.2	21	10.3
Kerr-McGee	27	14.0	10.4	0.4	27	9.5	6.7	4.9	32	12.7	23	8.2
Quaker State Oil	28	13.9	13.2	0.3	26	9.6	9.2	3.9	23	16.9	28	3.6
Coastal Corp	29	13.6	16.6	1.2	32	7.5	7.3	1.6	12	25.4	30	2.7
Union Pacific	30	13.4	9.4	0.5	30	8.6	5.5	4.8	18	21.6	16	13.5
Diamond Shamrock	31	12.9	7.4	0.5	29	8.8	5.7	3.2	22	18.7	31	–6.1
Allied Corp	32	11.6	9.0	0.2	31	8.2	7.4	3.7	21	18.8	27	4.4
United States Steel	33	1.1	def	1.0	34	3.8	def	def	34	10.1	32	–33.6
Marion	34	def	def	2.9	33	4.7	def	def	10	25.9	33	P–D
Medians		18.4	10.3	0.5		12.3	7.2	3.7		21.9		12.4
Coal												
North American Coal	1	15.2%	23.1%	7.3	2	6.4%	6.4%	4.8%	1	12.2%	1	10.2%
Eastern Gas & Fuel	2	12.7	7.7	0.6	1	7.7	5.2	3.3	2	11.6	2	3.9
Pittston	3	4.7	def	0.4	3	4.6	def	def	3	7.8	3	–23.4
Westmoreland Coal	4	0.4	4.5	0.3	4	2.1	5.1	1.6	5	5.1	4	–55.5
Gulf Resources & Chem	5	def	11.8	2.2	5	2.0	7.3	3.0	4	7.4	5	P–D
Medians		4.7	7.7	0.6		4.6	5.2	3.0		7.8		–23.4
Industry medians		17.4	9.9	0.4		12.0	7.1	3.3		18.8		12.2
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.

return on equity trails the industry median by more than 1%. Nevertheless, at a P/E of 28, the largest independent oil and gas producer in the country is a hot number—and a rumored takeover target by, among others, T. Boone Pickens Jr. before he went after Gulf.

But while things look good for domestic producers, they look glum for the big internationals, which no longer own their own oil but must buy much of it from OPEC. The depressed state of the refining and marketing business isn't working in their favor, either. There is overcapacity in refining of between 30% and 40%—a record high. Looking at his chart of refining margins, First Boston's Randol calls it "an electrocardiogram of a very sick industry."

Because European refineries have been hit even harder than those in the U.S., integrated companies with strong overseas positions, notably Gulf and Texaco, have been hurting badly. Gulf reacted last year by announcing that it was selling its European refining and marketing operations to Kuwait Petroleum Corp.

Saddled with these problems, the international oils recently have been looking less attractive than their domestic counterparts. For the latest 12 months, the Forbes Yardsticks show that return on equity for the giant internationals has averaged just over 9%, one percentage point below the industry mean for domestic oils.

As a domestic company, Atlantic Richfield also looks good. Last year, analysts say, Arco cut gasoline prices aggressively in the all-important West Coast market because of access to Alaskan crude oil and an innovative marketing strategy. The result? Huge gains for Arco at the expense of less well positioned refiners like Tosco and Holly, who simply couldn't meet Arco's low prices at the gas pump.

While West Coast gasoline prices are firmer now, Arco's strategy is likely to continue to pay off, making it a winner in a sea of losers. With its stock selling at a P/E of 5.6, that fact appears to have gone unnoticed so far.

Shell Oil, the U.S. arm of Royal Dutch/Shell, is another domestic with good prospects. Shell has focused on efficient upgrading of vast quantities of low-grade crude oil reserves it acquired with the purchase of Belridge. With oil costly to find, you are way ahead of the game if you can take low-grade stuff and turn it into good crude rather than having to go out and find the high-grade stuff from scratch. ■

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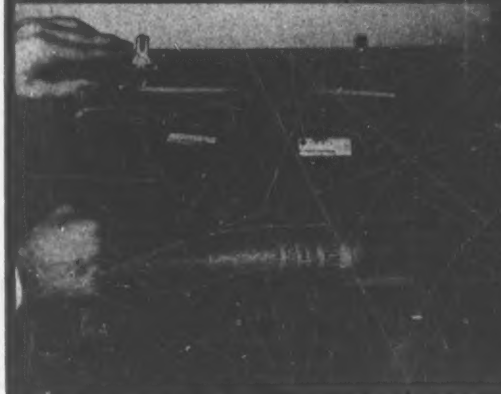

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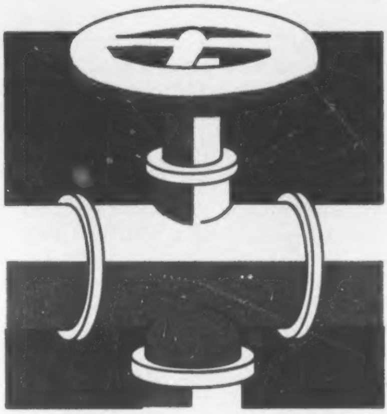
Natural gas is in oversupply, and yet gas prices keep rising. But behind all these clouds a brilliant sun is trying to break through.



Natural gas

By Toni Mack

WITH THE GAS MARKET still awash in expensive, unsalable gas—some 4 trillion cubic feet of it per year at last count, almost one-fourth of capacity—the industry is praying for fierce, lengthy winters and runaway recovery. But even if it gets its wishes, it will be a good two years before that excess is burned off. Here, too, rising prices have led to conservation, which means the country uses less energy to support a given level of economic activity. "The University of Houston is a good customer for us," cites Jackson Hinds, chairman of Entex Inc. "They are using probably half as much gas as they did ten years ago because they have invested a lot in energy cost reduction."

A snow-laden house last winter

Praying for hard winters and runaway recovery.

The university was no isolated case. General Motors reported a 27% rise in output with zero increase in gas consumption. Meanwhile, exploration companies like Standard Oil Co. (Indiana), Mitchell Energy and Shell keep finding more gas. Conservation, then, isn't really the right term to describe what is happening. It's simply that price is performing its function in a free economy, in this case restricting demand and stimulating output. So, don't look for a quick recovery in this industry.

But if there is too much gas around, how come prices aren't dropping? Because of old rigidities built into the system by the ill-advised price controls of the past. As old, controlled, low-priced gas contracts come to an end, the high-priced gas signed up in the manic buying of the late Seventies keeps pushing up the pipelines' average cost. Tenneco's gas costs rose to $3.26 in April from $2 in May of 1981. This, too, hurts the industry because other fuels are easily substitutable for natural gas. In some places last year, pipelines were trying to sell $4.50-per-thousand-cubic-feet gas to customers who could buy the same amount of energy in fuel oil form for $3.75. One reason United Energy Resources, long one of the industry profit leaders, was beaten in the latest 12-month industry Yardsticks was that buyers along its Gulf Coast pipelines began picking up especially cheap residual fuel oil from nearby crude refineries. As long as oil prices remain weak, fuel oil will continue to keep a cap on the price gas pipelines and distributors can charge.

The gas industry is fighting to lower wellhead prices, but there are problems. The biggest shackles are "take-or-pay" contracts the pipelines signed with producers. These specify that if a pipeline cannot take delivery of its minimum contracted quantity—usually at prices that look indigestible today—it must pay for the gas anyway, for future delivery. That was a killer in 1983, which is why some of the biggest companies in the business invoked *force majeure* to get out of the contracts. Northwest Energy has settled amicably with its suppliers, but Tenneco and Columbia triggered a storm of lawsuits. Panhandle Eastern Corp., which is saddled with expensive liquefied gas from Algeria, has had to prepay $43 million for unsalable gas (against a contract exposure of $2.6 billion). Try that at today's interest rates.

A few pipelines, such as Yardstick-topping Sonat Inc., have managed to haggle away some problems. "The producers aren't stupid," says Henry Goodrich, Sonat's chairman. "They know we can't sell the gas, and there's usually something you can give them, like a hookup to a new well [which will persuade them to renegotiate their contracts]. We've got our take-or-pay obligation down from $500 million, which was a choker, to something less than $300 million, which we can live with." In a few years, however, Sonat will be in the anomalous position of needing more gas. So Goodrich has signed up for 1.5 trillion cubic feet, with delivery starting in 1985, from Arkla Inc., which has abundant reserves of low-cost gas, as one can sense immediately from its latest 12-month return on equity. Unfortunately, Sonat's idle offshore drilling rigs are likely to pull down earnings in 1984.

Everyone in the industry believes that gas deregulation would help. But there are as many versions of deregulation as there are supporters, and few versions look like anything Adam Smith would call a free market. Distributors and producers disagree on whether the price of "old" gas (found before 1978) should be decontrolled. Producers and pipeliners debate whether high-priced take-or-pay contracts should be ripped up. Pipeliners and distributors are at loggerheads over automatic passthrough of gas costs. Most hotly contested of all is mandatory contract carriage, which would force pipelines to carry gas that customers bought directly from the producers for a transportation fee *(see box)*.

Given the violence of the debate, it's understandable that a comprehensive deregulation bill was defeated in November and probably won't stand a chance of passage until the presidential election is over. "It's a little like the Houston Astros at the end of the season. We're 6½ games out of first place, but we're not mathematically eliminated yet," says Tenneco Executive Vice President Joe B. Foster.

If there is a silver lining for the future in all this, it is that everybody concerned seems disgusted with price controls—even though nobody can agree how to get out of them.

Now the good news: Industrial buyers have long been forced to bear a disproportionate share of gas service costs in order to keep prices to residential consumers lower. That's what is politely called populism. Populism is popular with voters, until they understand that it has been costing them their jobs.

Moreover, when overburdened industry shuts down or switches fuels, it leaves more fixed costs to be borne by the voters. So utility commissions in Pennsylvania and elsewhere have

This is deregulation?

By allowing buyers to circumvent a pipeline whose gas price is too high and deal directly with the people who own the wells, Congress figures pipelines will be spurred to hold down prices. It's a good idea. In theory. But as usually happens with such well-intentioned political meddling, Congress' last shot at "deregulation"—the Natural Gas Policy Act of 1978—has helped mostly lawyers, and this new version may do the same.

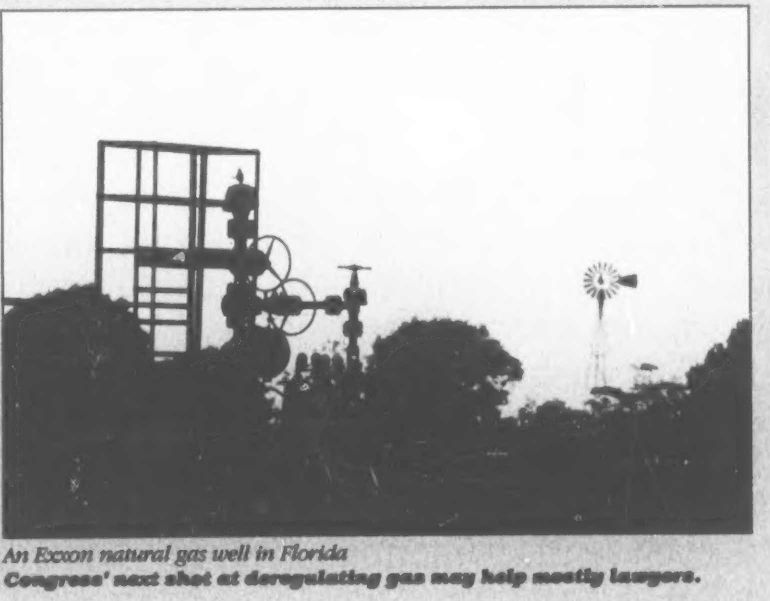
"Mandatory contract carriage," as it's called in the deregulation bills, would force pipelines with extra capacity to haul gas for others for a fee. Actually, they often do so voluntarily: In 1982 gas hauled for others in this fashion accounted for 18% of all gas transported interstate. But the pipelines don't want to be forced into anything. They don't want to be made to carry gas for low-cost competitors. Here's how the situation developed.

When the gas glut began, a few small intrastate pipelines, most notably Lear Petroleum Corp., began trying to outflank the big interstate pipelines by selling cheap gas directly to users, usually on a short-term basis. The interstates balked at carrying this gas in their pipelines. Why should they undercut their own business? Now Congress wants to force them to do so. In the name of the sacred consumer, of course. Of course.

Meanwhile, without being forced by Congress, some pipelines are setting up their own direct-sales programs. Transco Energy, for example, started one last May, acting as broker for buyers and sellers, and now transports 150 million cubic feet of direct-sales gas a day. "It makes no difference to us. We make the same margin whether we transport or whether we buy and sell," says Transco President Kenneth Lay, who thinks direct sales could account for as much as 30% of all gas sold by 1990. Tenneco, United Energy Resources, Columbia Gas System and Panhandle Eastern have also started such programs in the last few months. But other pipelines resent being forced to deal with competitors.

What happens if Congress forces the big pipelines to deal with people like Lear? A bureaucratic apparatus would have to be created and law firms would benefit. "The regulators will have to make all kinds of planning and operating decisions about whether capacity exists, how you're going to haul the gas, where you're going to drop it off, how you're going to bring it in and out of storage—all abdicated to some unknowing federal employees who are going to be pulled in a bunch of different directions on every issue. It's going to be chaotic," says George Lawrence, president of the American Gas Association. He endorses giving FERC "the authority on a rifle-shot basis to mandate hauling gas when a pipeline is stonewalling someone."

Lovers of regulatory solutions to market problems should consider the case of Panhandle Eastern when it filed for a rate increase last March. It got a questionnaire from FERC that took 180,000 pages to answer. So-called consumerism often benefits lawyers and bureaucrats more than it does consumers.—T.M.



An Exxon natural gas well in Florida

Congress' next shot at deregulating gas may help mostly lawyers.

approved price breaks for big industrial buyers, which will help win back lost markets. All the same, industry profit leader Pioneer Corp. last year spun off its West Texas distribution system partly for fear that regulators would begin to covet its revenues from exploration, gas transmission and other operations.

So you can bet that the industry isn't running out of problems. And yet the natural gas industry remains attractive to big business. Several pipelines have been or are in the process of being bought out—El Paso Co. by Burlington Northern Inc., Northwest Energy Co. by the Williams Cos., Celeron Corp. by Goodyear Tire & Rubber Co., etc. MidCon Corp. and Houston Natural Gas Corp. have also been mentioned as potential targets. (Stock prices, unfortunately, already reflect the chances of a takeover.)

What's the lure? "The pipeline industry couldn't be built again, so it's got no competition," says Goodrich of Sonat. "It's a franchise-type operation with a reasonable rate of return. That's attracted some of the wolves. Sharks, too." But the sharks and wolves wouldn't be there if they didn't think this was an industry with a bright, long-term future. ■

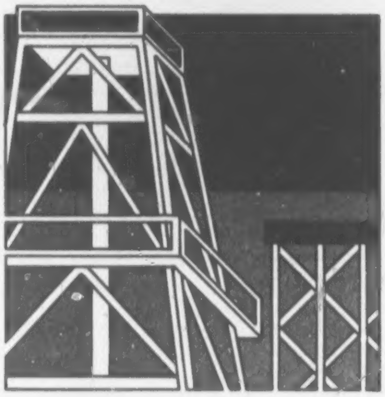
Natural gas

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Producers and pipeliners												
SONAT	1	19.6%	18.7%	0.6	1	11.6%	10.3%	7.8%	3	24.7%	2	16.1%
Transco Energy	2	18.5	14.4	1.0	7	8.2	7.2	3.1	1	34.2	1	17.6
Panhandle Eastern	3	18.4	10.1	1.0	3	9.7	5.5	4.4	2	25.3	3	11.8
ENSERCH	4	17.9	9.6	0.7	2	10.7	6.5	2.9	6	23.4	4	11.3
Texas Eastern	5	17.0	10.2	0.5	4	9.4	6.7	2.5	5	23.6	5	9.8
Tenneco	6	16.3	13.1	0.7	5	9.4	7.4	4.9	8	16.2	6	5.6
MidCon	7	13.5	12.1	0.5	6	8.6	8.0	3.7	4	24.2	7	5.0
El Paso	8	7.9	14.4	1.6	8	5.2	7.0	1.8	7	20.3	8	–22.5
Medians		17.5	12.6	0.7		9.4	7.1	3.4		23.9		10.6
Pipeliners and distributors												
Pioneer	1	30.7%	21.2%	0.7	1	16.6%	10.8%	7.6%	6	19.3%	2	20.7%
United Energy Resources	2	23.5	5.7	0.4	2	16.3	4.5	1.2	1	29.1	3	18.9
Houston Natural Gas	3	23.2	15.1	0.3	3	14.7	10.6	6.4	7	19.1	4	15.2
Valero Energy	4	22.8	13.7	0.6	4	11.4	7.5	4.1	10	14.4	1	67.6
Arkla	5	20.2	16.2	0.6	5	10.6	8.6	6.0	2	22.8	5	10.8
Am Natural Resources	6	17.5	17.8	0.9	8	8.8	8.7	5.2	5	20.1	6	10.2
InterNorth	7	17.1	15.4	0.5	6	10.1	9.4	4.8	3	20.2	8	8.1
Northwest Energy	8	15.1	7.8	1.2	9	8.7	4.8	1.8	4	20.1	7	8.6
Mountain Fuel Supply	9	14.8	19.0	0.7	7	9.0	10.2	9.2	8	18.7	9	7.3
Columbia Gas System	10	13.6	10.8	0.8	10	7.8	6.7	3.4	9	18.3	10	6.4
Medians		18.9	15.3	0.7		10.4	8.7	5.0		19.7		10.5
Distributors												
Entex	1	22.5%	19.7%	0.7	1	12.3%	11.5%	4.2%	3	22.7%	1	14.8%
KN Energy	2	17.6	19.0	0.6	7	8.8	9.0	6.5	13	17.7	9	6.3
Southern Union	3	17.2	10.6	0.5	4	9.9	6.8	2.6	8	18.9	5	9.1
Oneok	4	16.7	8.8	0.7	3	10.1	6.5	2.9	6	19.0	11	5.5
Diversified Energies	5	15.4	15.0	0.5	2	10.1	10.0	2.9	5	19.8	7	8.0
Brooklyn Union Gas	6	15.4	15.7	0.7	5	9.2	10.0	5.2	10	18.3	3	10.5
Pacific Lighting	7	14.7	15.7	1.0	6	8.9	9.7	3.4	2	23.1	2	11.8
Peoples Energy	8	14.3	11.7	0.7	11	7.3	6.5	2.6	17	15.6	12	3.1
Consol Natural Gas	9	14.1	15.2	0.5	8	8.5	9.0	5.5	11	17.9	4	9.1
Laclede Gas	10	13.2	12.3	0.6	10	7.6	7.5	2.6	15	16.0	8	7.8
NICOR	11	12.2	3.0	0.6	13	7.1	2.9	1.5	14	17.0	14	1.6
National Fuel Gas	12	12.1	10.2	0.7	9	7.8	7.1	2.7	18	15.5	6	8.1
Washington Gas Light	13	10.7	13.2	1.0	14	6.5	7.0	3.8	16	15.9	10	6.1
UGI	14	10.4	1.2	0.9	12	7.2	3.1	1.1	1	23.4	13	2.7
WICOR	15	9.7	9.0	1.0		**	**	2.0	9	18.5	16	0.0
Atlanta Gas Light	16	9.5	10.3	0.9	15	6.2	6.8	1.6	4	22.1	15	0.9
No Indiana Pub Svc	17	8.4	10.5	0.9	16	5.4	6.0	6.7	12	17.9	18	–6.8
Gas Service	18	7.6	3.6	0.8	16	5.4	3.8	0.6	7	19.0	17	–3.4
Primark	19	4.9	5.3	0.8	18	3.9	4.4	0.9	19	14.7	19	–13.8
Medians		13.2	10.6	0.7		7.7	6.9	2.7		18.3		6.1
Industry medians		15.4	12.5	0.7		8.9	7.2	3.4		19.1		8.1
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
**Not available; not ranked.

With another poor year in prospect for oil service companies, the worst isn't over yet.



Oilfield drillers and services

By Robert H. Bork Jr.

AFTER AN ABYSMAL 1983, during which companies wrote off more than $1 billion pretax and laid off thousands of employees, oilfield service chief executives don't see much more than a modest upturn this year. To be sure, exploration is up domestically. The U.S. rig count has trended up to about 2,200 since scraping bottom at 1,807 in April, and the number of seismic crews conducting soundings for oil has grown to about 450 from a nadir of 402 during the same month.

But for the most part oilmen remain unimpressed. "There are quite a few signs of improvement in the air, but it's in the air more than it is in reality. It's nowhere near back to anything good yet," says John Wallace, chief executive of $2 billion (sales) Petrolane Inc., which ran in the red for the latest 12 months, as opposed to its respectable 18.9% five-year average return on equity.

A few years ago there was so much drilling that nobody counted the cost. Now, with more capacity than demand for it, drilling costs are way down, about 28% since 1981. Why haven't the lower prices stimulated drilling? It's an old story. "People buying a new car assume that they are going to get a better deal tomorrow or

Oilfield drillers and services

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
L B Foster	1	39.8%	def	0.8	21	8.8%	def	def	22	2.8%‡‡	22	−40.1%‡‡
Schlumberger	2	33.6	21.7%	0.1	1	31.1	20.3%	20.5%	7	22.6	2	27.9
Global Marine	3	28.9	13.7	1.3	11	13.3	6.6	14.0	2	27.5	1	86.5
SEDCO	4	27.9	33.8	0.5	4	15.5	18.2	23.6	19	8.6	4	23.0
Western Co No Amer	5	23.1	def	1.4	18	11.5	2.9	def	1	31.7	5	20.8
Kaneb Services	6	22.1	16.2	0.9	12	13.2	9.4	9.2	3	27.3	13	9.9
Geo International	7	20.7	def	0.6	2	17.2	def	def	8	22.4	18	4.5
Baker International	8	19.9	def	0.5	5	15.0	def	def	4	26.8	6	16.8
Tidewater	9	19.3	9.5	0.6	14	12.8	6.7	8.8	13	19.2	15	9.4
Parker Drilling	10	19.3	def	0.8	7	14.3	0.9	def	6	25.8	10	14.4
Reading & Bates	11	19.2	7.3	0.9	15	12.3	5.4	8.1	12	19.3	8	15.6
Cameron Iron Works	12	19.2	def	0.4	8	14.0	def	def	14	16.6	11	14.3
Petrolane	13	18.9	def	0.4	9	13.8	def	def	15	16.5	16	8.7
Halliburton	14	18.4	9.5	0.2	3	15.6	8.6	5.8	18	11.8	12	10.6
Zapata	15	17.7	11.7	0.9	20	9.4	7.0	10.7	21	5.4	3	23.4
Big Three Industries	16	17.2	8.4	0.3	13	13.2	7.0	7.6	11	19.3	9	14.5
Rollins	17	17.1	1.8	0.0	6	14.7	1.9	1.0	16	12.8	17	7.5
Hughes Tool	18	16.5	def	0.5	9	13.8	0.9	def	5	26.2	7	16.0
NL Industries	19	14.8	def	0.4	16	11.7	def	def	20	5.7	14	9.4
Smith International	20	13.5	def	0.2	17	11.5	def	def	9	22.0	20	3.8
Dresser Industries	21	13.2	0.1	0.2	19	11.1	0.9	0.1	17	12.0	19	4.0
McDermott Intl	22	8.6	7.4	0.3	22	6.3	6.0	3.0	10	20.0	21	−9.2
Industry medians		19.2	1.0	0.5		13.3	2.4	0.6		19.3		12.5
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡‡Three-year growth. def: deficit.

the next day or next month, so they don't rush out and buy one today. People who drill wells are probably the same way," says Dresser Industries Vice President Herbert Ryan. Certainly they haven't been rushing out to buy Dresser's rigs. Dresser was barely in the black last year.

Nor is there any hope from overseas markets. "The international scene is still sagging right now as far as we're concerned. Rig counts are falling. There are currency problems. And on top of that there has been a migration of excess equipment from the U.S.," says Wallace of Petrolane.

"This is an industry with a history of oversupply and undersupply and not one that moves smoothly between them," observes Ron Lassiter, chairman of Zapata Corp., a major offshore drilling contractor.

When is the next swing? James Lesch, chairman of $1.6 billion (sales) Hughes Tool Co., the world's largest maker of drill bits, thinks it might not come until 1988. Hughes predicts only small increases in U.S. drilling activity this year: average active U.S. rigs up 6.1%, to 2,425 from 2,285, and drilling expenditures up 12%, to $21.5 billion from $19.2 billion. Dresser predicts a modest decline, to an average 2,200 rigs. The optimists, like Baker International Corp., expect a steady climb through the year to 3,000, for an average of about 2,550. But even if the optimists are right, the figure would still be 40% below the best levels of the early 1980s.

Is there no good news in sight? Yes, there is. The industry has been forced to reduce its break-even point by about one-third. "Everybody's gone after their capital base and their cost structure with a meat ax," says Ronald Turner, a Baker vice president. Dresser's Ryan thinks an active rig count of 3,000 could bring back peak profit margins. "We're at a point where every increase in volume will be accompanied by a proportionately higher increase in margins," echoes Thomas Cruikshank, CEO of $7 billion (sales) Halliburton.

Who will feel the pickup first? Companies that make expendable products like drill bits and drilling mud have an obvious advantage over makers of rigs and other capital goods like McDermott International, Parker Drilling and Cameron Iron Works, where it may be years before demand picks up.

On the expendable side, drill bit manufacturers like Smith International Inc. began recalling workers in 1983, despite its deficit for the latest 12 months in return on capital. Smith's red ink came mainly from an $85 million writeoff of inventory, property, plant and equipment in the third quarter. Lesch of Hughes Tool says he probably will bring back workers later this quarter.

Why was industry profit leader Schlumberger Ltd. able to hold up so nicely with a 20.3% return on capital for the latest 12 months? Well, when your oilfield operating margins are averaging 40%, a dip of a few points doesn't affect you as severely as it would a weaker company. And one way number two SEDCO Inc. was able to rack up an 18.2% return on capital was by writing long-term rig rental contracts while others were taking shorter terms. When the market collapsed, SEDCO was covered and the others were not.

So, there are signs that the bottom is near for this industry. But there may be yet one more big bump. Says Chairman Wallace of Petrolane: "I think a lot of the companies in this business have hung on by their fingernails. But when this winter quarter hits, I believe the last plug will be pulled." ■

Life without banks

With commercial banks burned badly in the oilpatch, service companies are being forced to prop up ailing customers and finance their products. Some with strong balance sheets, like Halliburton, are simply offering longer credit terms. But companies like the Western Co. of North America, which already has too much leverage for its own good, can't do that. So they are, in some cases, taking an interest in their customers' fields as partial payment.

Perhaps the most innovative financing was devised by a small, debt-ridden, private Oklahoma producer called PCX Corp. Partners David Palm and Greg Cook formed a new company, Palm-Cook Production, and convinced several suppliers to invest $32 million worth of services and equipment in a 108-well drilling program in an area of proven but undeveloped reserves. With an additional $18 million loan from Continental Illinois, the company hopes to keep six rigs busy for a year.

What made the bank go along with the deal? Self-preservation. It was their best hope for collecting several million dollars of debts owed by Palm's other production company, PCX. After the suppliers are paid for drilling the 108 wells, additional income will pay off PCX' loans and bills.

There could be more deals like that this year. "Creative financing is going to be a major factor in the energy market for a number of years," says Ken Miller, Smith Barney's oil service analyst.—**R.H.B.**

Roughnecks at work on Texas oil rig

Makers of expendable goods, like drill bits, will fare best.

This industry may have stopped growing. That's good for shareholders if not for suppliers.

Electric utilities

By Joan A. Briggs

WE'RE NOT GOING TO BUILD any more power plants. Ever again," says Thomas Page, chief executive of San Diego Gas & Electric Co. "We believe our ability to serve our customers hinges on our ability to transmit power from other areas of the country where there's a surplus to this area."

Everybody knows that utility growth has slowed down. What people can't agree upon is whether it will resume again and at what pace. Page thinks there will be continuing surpluses for two reasons: the fundamental economic shift from smokestack industries toward chip-based industries and customer conservation measures that are already in place. "I'm a bit of a contrarian," he says. "I believe the industry's growth rate is going to be much lower than most people are forecasting and that it may even be negative. The nation is a vast pool of electrical energy. Our job will be to transmit it from one place to another, to be energy managers."

Page isn't as much of a contrarian as he thinks. The Edison Electric Institute projects an average annual growth rate of 2.5% to 3% for the rest of the decade, but that's not enough growth to require vast infusions of new capacity. "We think we are passing through the peak of building now," says Richard Braatz of the EEI. "The industry expected to spend $36.7 billion in 1983. In 1984 it expects to spend $35 billion. By 1987 the number will be down to $28 billion."

Bad news? No, good news. "It gave a higher multiple to companies that have completed their building programs, such as Con Edison and Wisconsin Electric," says Ernest Liu, Goldman, Sachs' utility stock analyst. By contrast, he says, the market gave a lower multiple to companies still building, especially if they are

Electric utilities

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Northeast												
United Illuminating	1	15.4%	18.7%	0.9	2	8.8%	10.0%	17.7%	2	14.7%	9	4.7%
New England Electric	2	15.4	18.3	0.8	9	7.3	8.3	10.1	15	10.6	1	9.8
Commonwealth Energy	3	14.1	19.1	0.7	12	6.8	8.3	6.0	14	11.3	5	6.5
N Y State Elec & Gas	4	13.8	14.3	0.9	3	8.3	8.5	16.6	8	13.3	7	5.7
Long Island Lighting	5	13.7	15.0	0.6	1	9.1	9.7	20.6	3	14.7	15	1.8
Niagara Mohawk Power	6	13.5	15.6	0.8	4	8.0	8.9	11.7	5	14.1	8	5.3
Orange & Rockland	7	13.3	14.1	0.6	7	7.4	7.9	7.0	12	12.5	4	6.6
Consolidated Edison	8	13.3	15.3	0.6	6	7.6	8.9	10.1	17	10.1	2	9.6
Rochester Gas & Elec	9	12.6	14.9	0.8	5	7.8	8.8	11.0	4	14.3	6	6.4
Penn Power & Light	10	12.5	12.6	0.9	11	6.9	6.7	25.3	16	10.4	16	1.2
Delmarva Power & Lt	11	12.5	15.2	0.9	8	7.3	8.2	13.0	9	12.9	10	3.8
Atlantic City Elec	12	12.0	14.9	0.8	10	7.1	8.0	12.6	6	13.7	14	2.2
Boston Edison	13	12.0	12.2	0.8	16	5.8	6.0	6.8	13	11.7	3	7.5
Northeast Utilities	13	12.0	17.3	1.2	12	6.8	8.4	11.1	1	14.9	13	2.8
Phila Electric	15	11.8	13.8	1.0	15	6.6	7.2	14.8	10	12.8	11	3.3
Pub Svc Elec & Gas	16	11.8	13.0	0.7	14	6.7	7.3	9.8	11	12.6	12	3.0
General Public Utils	17	3.1	3.2	0.9	17	3.8	3.8	1.9	7	13.5	17	–20.7
Medians		**12.6**	**14.9**	**0.8**		**7.3**	**8.3**	**11.1**		**12.9**		**4.7**

Note: Explanation of Yardsticks calculations on page 38

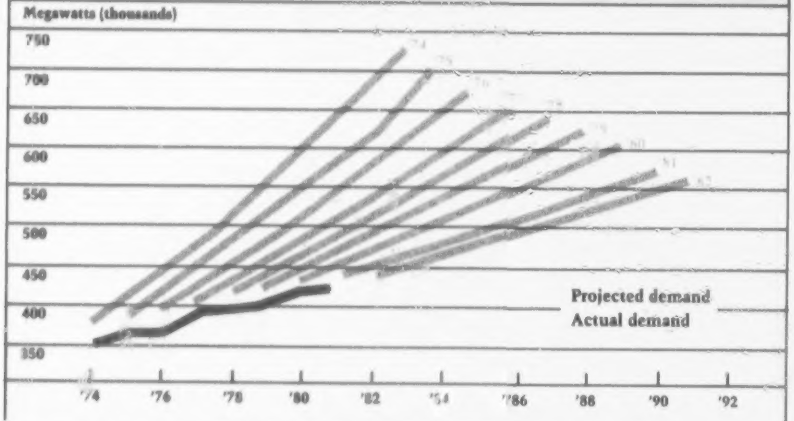
building nuclear power plants like Public Service of Indiana and Cincinnati Gas & Electric. So far as Wall Street is concerned, stagnation is in, expansion is out. In their expansion phase, utilities were in a no-win situation. High interest costs made the building of long-lead-time utility plants terribly expensive, while "populist" rate commissions refused to make the power companies whole.

Charles McNeer, chief executive of Wisconsin Electric Power, now has just two new coal-fired plants under construction, one wholly owned, one 25% owned. Once they start generating electricity next year, McNeer figures he's home free. "We won't need to think about building again until the late 1990s," he says. "And we've been able to ask for a rate reduction. We're confounding our critics."

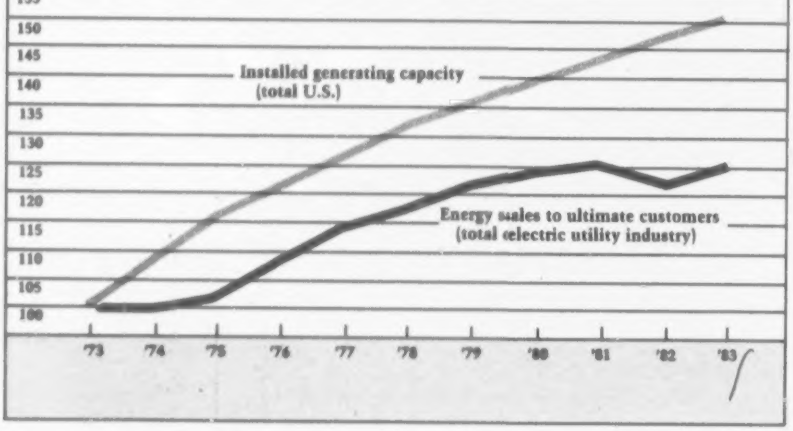
Another executive pleased to be through with building power plants for a while is William Berry, chief executive of Dominion Resources, the new holding company for Virginia Electric Power Co. The company, which operates four nuclear reactors, has canceled three others for lack of demand and a fourth because of high construction estimates. Berry hopes to learn early this year how the regulatory commissions that govern VEPCO will allow it to deal with the $500 million it invested in the last of those canceled reactors. Must the company simply write off the expen-

Inelastic demand?

Every year since 1974 the electric utilities have lowered their demand projections. And every year since 1974 actual demand has turned out to be even lower than expected.



Over 140 power plants have been scrapped since 1973. Since then generating capacity has increased 50%, demand 20%. Small wonder some utility men say they'll never build a power plant again.



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diture? If so, over how many years? Or will it be allowed to include it in the rate base and perhaps earn something on it? "It's a big item for us," says Berry. "A very big item."

Meanwhile, Berry has been trying to repair his highly leveraged balance sheet by selling part interests in two of his remaining four nuclear reactors to their customers, a group of electric cooperatives. VEPCO's only building project is a $1.6 billion pumped-storage hydro facility in western Virginia. It will be available in 1985 and, says Berry, is ahead of schedule and under budget. "This is our last project," he adds, "until sometime in the 1990s."

But some electric utilities still have very active building programs. Keith Turley, chief executive of Arizona Public Service, is managing the construction of three huge nuclear power plants, Palo Verde No. 1, No. 2 and No. 3. Construction of the plants is draining the company dry. "The commission didn't grant us a rate increase," says Turley. There was a change in commissioners, he explains. Instead of granting the 5.5% to 6% the hearing officer recommended, the commission granted 0.9%. "Our cash flow turned negative, and our financial condition has deteriorated to the point that all three rating agencies have downgraded us. Now we need an emergency increase."

Certainly the electric utility industry is due for a breather after the tumultuous Seventies, which turned their previously serene world on its ear. Before the oil embargo, technology in new plants lowered the price of a kilowatt-hour. After 1974, with rising fuel bills, inflation and interest rates, new plants increased the price of a kilowatt-hour. The economies of scale simply vanished.

Prior to the Seventies, demand was perfectly predictable: It grew 7% a year—"Like watching paint dry or grass grow," comments Braatz. Utilities, anticipating that growth rate to continue, undertook massive building programs. The energy crisis led them to believe they would get additional growth from residential and industrial customers cut off from natural gas or eager to get off imported oil. Electric cars also seemed likely.

None of these happy things came to pass. Meanwhile, to nearly everyone's surprise, the demand for power proved price-elastic—meaning that when rates went up people used less. That, in turn, has led to dozens of canceled power plants and to the current generating overcapacity.

So, for the first time in years, utilities are advertising, and some, like Detroit Edison and Philadelphia Electric, are offering discounts to industrial customers, justifying that step to regulators in the name of job creation

Is a new era at hand for the embattled industry? An era when capital needs can be met out of cash flow instead of with costly outside financing? If inflation stays low, they won't have to keep asking for rate increases and may even begin asking for rate reductions. The industry might cease being a whipping boy for publicity-hungry "consumerists."

Alas, it is too soon to break out the champagne. Close to 60% of utility

Electric utilities

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Midwest												
Iowa-Illinois G & E	1	15.6%	18.3%	0.8	9	7.4%	7.9%	12.4%	5	14.5%	5	7.5%
Public Service Indiana	2	15.6	16.1	0.7	3	7.7	7.5	27.8	17	13.1	8	6.4
Wisconsin Pwr & Lt	3	14.8	16.5	0.7	5	7.5	8.2	9.6	8	14.0	2	8.3
No States Power	4	14.7	17.5	0.7	15	7.1	8.1	10.9	19	11.7	4	7.5
Indianapolis Pwr & Lt	5	14.6	16.4	0.6	11	7.4	8.2	17.4	21	11.3	7	6.9
Wisconsin Public Svc	6	14.3	16.6	0.6	13	7.2	8.1	8.4	6	14.2	3	7.6
Kansas Power & Light	7	14.3	16.5	0.7	8	7.5	8.3	13.5	9	13.9	10	5.7
Illinois Power	8	13.8	16.5	0.8	5	7.5	8.2	15.2	4	15.3	15	3.2
Allegheny Power	9	13.8	15.4	0.9	12	7.4	7.9	9.5	3	15.5	9	5.7
Wisconsin Elec Power	10	13.6	15.6	0.6	9	7.4	8.5	10.4	7	14.1	1	8.5
Union Electric	11	13.5	17.2	0.9	19	6.7	7.5	19.7	22	10.9	12	4.0
Cleveland Elec Illum	12	13.4	15.9	0.8	2	7.8	8.6	19.3	20	11.7	19	1.9
Kansas City Pwr & Lt	13	13.2	17.6	0.9	20	6.5	7.6	21.4	10	13.9	11	5.3
Central Ill Pub Svc	14	13.0	15.4	0.7	17	6.8	7.4	11.2	15	13.3	16	3.0
Cincinnati G & E	14	13.0	15.2	1.0	7	7.5	7.9	11.0	13	13.5	14	3.3
Central Illinois Lt	16	12.9	14.7	0.6	23	6.0	6.5	8.6	11	13.8	6	7.1
Dayton Power & Light	17	12.9	14.3	1.0	1	8.0	8.4	12.5	14	13.4	13	3.9
Toledo Edison	18	12.3	14.5	1.0	4	7.6	8.1	24.0	16	13.2	22	–0.2
Commonwealth Edison	19	12.2	16.7	0.9	18	6.7	8.1	17.3	12	13.8	20	1.9
Ohio Edison	20	11.8	13.4	1.2	14	7.2	7.6	16.5	18	13.1	21	0.9
Consumers Power	21	11.4	11.2	0.9	22	6.4	6.6	11.8	23	10.7	18	2.2
Duquesne Light	22	10.9	12.4	0.9	21	6.5	6.9	17.2	24	10.3	23	–1.1
American Elec Power	23	10.8	10.7	1.1	16	7.0	6.6	8.9	2	15.6	24	–1.2
Detroit Edison	24	10.8	13.0	1.1	24	6.0	6.2	15.3	25	9.6	17	2.7
No Indiana Pub Svc	25	8.4	10.5	0.9	25	5.4	6.0	6.7	1	17.9	25	–6.8
Medians		**13.2**	**15.6**	**0.9**		**7.2**	**7.9**	**12.5**		**13.5**		**3.9**

Note: Explanation of Yardsticks calculations on page 38

Earnings magic

An intelligent reading of the Forbes Yardsticks on the electric utilities takes a bit more effort than it does for other industries because of the peculiarities of regulatory accounting. In most industries, the higher the return on equity the better. But in utilities a high return on equity may be almost meaningless. It can signify a high degree of noncash earnings and a possibly burdensome capital spending program. Here's why:

Most state commissions do not permit utilities to include in their rate base capital investments that are not yet producing. Nor can they expense interest costs on the money borrowed for the construction. Since the lead time on a utility plant can be a decade or more (with a nuclear plant), the sums involved may be tremendous. This means that while the utility pays huge amounts of interest, it doesn't deduct the interest from earnings. Earnings, therefore, look much better than they really are.

Instead of expensing the interest, the utilities capitalize it. That is, they add it to the cost of the new plant on their books. In theory, they will get the money back over a long period of time when the new plant is operating and is included in their rate base. In theory. Several nuclear plants—Lilco's Shoreham plant and Cincinnati Gas & Electric's Zimmer plant, notably—may be prevented from operating by politicians bending to antinuke pressures. What happens then to the investment and to all that capitalized interest?

Keep in mind that we are not talking about petty cash: Such allowances for funds used during construction account for 60% of all utility earnings.

We forgot to mention "rate shock." That's what happens to consumers when a new plant comes into the rate base and sends their rates up 50%. The customers don't like that. They complain to the politicians. So utility rate commissions are starting to require that the new plants be added to the rate base piecemeal, over a three-year or four-year period. That eases the pain for the customer but means, bottom line, that the utility reports "phony" earnings a while longer.

Another thing that is topsy-turvy in utilityland is the question of equity ratios. In most businesses a high common equity ratio is desirable. Not necessarily so in utilities. The more equity on the balance sheet, the higher the cost of capital, and the higher electric rates become. Nonetheless, overall the utility industry's common equity ratio has increased from 35.9% in 1979 to 38.7% today. This represents a substantial increase in a hugely capitalized industry. It is as much caused by difficulty in selling bonds as by fiscal conservatism. Where bonds can't be sold equity often must be—often resulting in severe dilution. A relatively low (but not rock-bottom) debt ratio, then, may indicate that the company has had to sell quantities of new equity, perhaps below book value, to maintain reasonable financial health.—**J.A.B.**

This announcement appears as a matter of record only.

November, 1983

General Motors Acceptance Corporation

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Merrill Lynch Capital Markets **Salomon Brothers Inc**

earnings in 1983 resulted from capitalizing financing costs and adding them back on the income statement, as required by the commissions. Any way you look at it, those were "phony" earnings. This add-back component should begin to decline in 1984 and 1985 as building programs wind down, putting pressure on reported earnings. And sluggish revenue growth, while holding down capital budgets, is no bonanza in the long run. Electricity sales were up about 2.2% in 1983, but that was due largely to the heat wave through much of the country. Pacific Gas & Electric, for example, reports sales down 1% in 1983 and expects them to be down again in 1984. Dale Steffes, a Houston-based consultant, forecasts a 2% average annual decline in kilowatt-hour sales for the rest of the decade.

Then there is the nuclear problem. Antinuclear activists have made things so tough for nuclear plants, delaying them repeatedly and frightening the public, that their costs have soared. So, what could have been a long-term benefit for the American people has become an albatross for the industry. A number of companies—including Long Island Lighting, Public Service of Indiana, Cincinnati Gas & Electric and Dayton Power & Light—are still struggling to get their new nuclear plants on line.

Those not afflicted by nuclear problems have acid rain to worry about. Old coal-burning plants, such as Indianapolis Power & Light and American Electric Power, may be legislated into huge expenditures for reequipping.

So, no, happy days aren't yet here for this industry. Quite a number of utilities seem concerned about the long-term survival of the industry and are forming holding companies and getting into other businesses. "We don't want to wait to do it until the commission tells us we can't," says Zane Todd, chief executive of Indianapolis Power & Light. ■

Electric utilities

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Southeast												
TECO Energy	1	14.4%	15.0%	0.7	5	6.9%	7.1%	11.1%	6	14.1%	2	7.0%
Duke Power	2	13.8	14.6	0.8	1	7.5	7.8	17.4	12	11.9	1	7.9
Potomac Elec Power	3	12.8	14.7	0.9	4	7.1	7.7	11.9	13	11.2	3	6.3
Florida Power & Lt	4	12.7	13.9	0.8	7	6.6	6.9	10.0	2	16.0	4	5.8
Baltimore Gas & Elec	5	12.6	14.4	0.8	2	7.2	7.9	12.3	10	12.8	5	5.4
Carolina Pwr & Lt	6	12.4	12.9	0.8	6	6.8	6.8	14.8	9	13.2	7	3.0
Middle South Utils	7	12.4	13.0	1.3	3	7.1	7.5	12.0	1	16.4	10	1.7
Southern Company	8	12.2	14.1	1.0	13	6.1	6.6	9.6	8	13.6	6	3.1
So Carolina E & G	9	12.1	13.2	0.8	10	6.3	6.6	11.1	4	15.1	9	1.8
Florida Progress	10	12.1	14.1	0.9	11	6.2	6.6	7.7	5	14.4	8	2.8
Louisville Gas & Elec	11	11.0	12.5	0.8	12	6.2	6.4	9.2	3	16.0	12	0.6
Kentucky Utilities	12	10.5	13.1	0.8	8	6.5	7.6	12.4	11	12.3	11	0.8
Dominion Resources	13	10.1	11.1	1.0	9	6.4	6.6	9.5	7	13.8	13	0.3
Medians		12.4	13.9	0.8		6.6	6.9	11.1		13.8		3.0
Southwest												
Southwestern Pub Svc	1	18.2%	21.3%	0.9	2	8.5%	10.6%	13.1%	4	17.6%	4	4.6%
Texas Utilities	2	15.1	15.3	0.8	3	8.4	8.4	13.0	2	18.5	1	8.0
Central & South West	3	15.1	15.7	0.7	4	7.7	8.4	11.1	7	16.4	2	6.6
Arizona Public Service	4	14.0	15.0	0.8	1	8.7	9.0	24.1	6	16.4	6	2.9
Gulf States Utils	5	13.5	16.0	0.9	5	7.6	8.9	16.0	2	18.5	3	4.7
Houston Industries	6	12.8	15.7	0.8	6	7.2	8.0	7.5	1	28.0	5	3.6
Oklahoma Gas & Elec	7	12.4	15.4	0.8	7	6.6	7.7	12.1	5	16.5	7	1.4
Medians		14.0	15.7	0.8		7.7	8.4	13.0		17.6		4.6
West												
Southern Calif Edison	1	14.4%	17.5%	0.9	2	8.7%	10.0%	15.4%	10	15.1%	2	5.8%
Montana Power	2	13.5	14.6	1.0	4	8.0	7.5	16.3	8	16.7	1	6.1
Pacific Pwr & Lt	3	13.3	15.3	1.1	5	7.9	8.4	15.2	1	23.8	4	4.3
Pacific Gas & Elec	4	13.2	14.0	0.8	3	8.5	8.8	11.7	7	16.8	3	5.6
San Diego Gas & Elec	5	13.1	16.7	0.7	1	8.8	10.3	11.0	2	21.0	7	2.6
Portland Genl Elec	6	12.4	12.8	1.0	6	7.8	8.6	23.9	6	18.5	6	3.1
Utah Power & Light	7	12.1	13.6	0.9	7	7.4	7.5	18.2	3	20.2	5	3.4
Puget Sound Pwr & Lt	8	11.6	10.1	1.0	8	7.0	6.2	18.6	9	15.9	10	–0.2
Public Service Colo	9	11.3	11.7	0.8	9	6.7	6.8	6.5	4	19.9	9	0.7
Hawaiian Electric	10	9.6	8.3	0.7	10	6.0	5.7	4.4	5	19.5	8	2.3
Medians		12.8	13.8	0.9		7.9	8.0	15.3		19.0		3.3
Industry medians		12.9	14.9	0.8		7.2	7.9	12.1		14.0		3.7
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38

"I'd rather be called a son of a bitch for not delivering than for not making a profit," says Gerry Mitchell of Dana Corp. Yes, things are getting better—but don't get too excited.

Auto suppliers

By John R. Dorfman

STARTING FROM A BASE YEAR as hideous as 1982, auto supply companies catering mainly to the original equipment market, such as Libbey-Owens-Ford Co., Dana Corp. and A.O. Smith Corp., haven't had much trouble showing 1983 earnings that are around twice 1982's. Many of them even have a fair shot at doubling earnings again in 1984. So it might be tempting to assume that the auto suppliers are out of the woods.

The Yardsticks show it is not true. Median return on equity for partsmakers the past 12 months was a mediocre 11.2%, and for the tire and rubber companies a poor 6.5%. Average earnings-per-share growth for the past five years has been negative. And the median net profit margin for all auto suppliers is now down to 2.7%. In 1977 it was 4.8%. Anyone want to bet the auto manufacturers will now start treating their suppliers more generously? Don't. "The manufacturers are really going to keep the pressure on the suppliers," notes Pete Van Hull, automotive consultant with Arthur Andersen & Co.

The replacement parts crowd, led by such companies as Federal-Mogul Corp., Borg-Warner Corp. and Genuine Parts Co., has shown less volatility in earnings than the original equipment manufacturers—naturally, since people have to repair their cars even during recessions. But our Yardsticks show that the replacement parts companies have generally fared no better than their original equipment brethren.

While things are getting better, the industry is still reeling from the totally unfamiliar shocks of the last five years. Frederick Mancheski, chairman of Echlin Inc., a Branford, Conn.-based parts supplier with sales approaching $600 million, sums it up: "In the summer of 1979," Mancheski recalls, "gasoline prices shot up. In the fall interest rates nearly doubled [from year-earlier levels]. In our industry, wholesalers—or, as we call them, jobbers—tend to be sharply leveraged with debt. When interest rates rose, they reduced their inventories substantially. They had to keep themselves solvent. Jobbers then tried to return slow-moving merchandise to regional warehouse distributors, and they, in turn, tried to return it to us. So our normal growth in unit sales of 3% to 4% was entirely absorbed by the shrink in inventory." Now, with Detroit out of the intensive-care unit, there's some inventory rebuilding. But, as Mancheski says, "the customers have learned to live with thinner inventories." And that's not likely to change soon. For $50,000 to $100,000 a jobber can install a computerized inventory control system that lets him run an operation just as efficiently with 30% less stock than was common back in 1979.

Mechanic at work
The sparks are flying again.

For years replacement partsmakers ranked with food companies and pharmaceutical houses as good recession-resistant investments. If people can't afford new cars, they will fix up their old ones. But that wasn't the way it happened this last time: Repair spending grew a paltry 4.7% annually, from $66.9 billion in 1979 to $76.8 billion in 1982. With fuel prices high, people were driving less. And an increased percentage of driving was local. If you're only going to the grocery store, why fix the shock absorbers?

True, long-distance travel is now coming back—both vacations and intercity freight. So maintenance long deferred is now being done. At car dealers, repair revenue was up about 10% for the first ten months of 1983. Truck fleets, too, are breaking out the wrenches. That's good news for Southfield, Mich.'s Federal-Mogul. Says F-M Chairman Thomas Russell: "I'm looking for no less than a 10% to 15% increase in operating profits in 1984." Others are even more optimistic, perhaps because they are not burdened with Federal-Mogul's slow-recovering farm equipment and off-road vehicle markets.

But just how profitable Detroit's rebound will be to the auto suppliers remains to be seen. While carmakers are making more money, in part because consumers are buying bigger, pricier cars, they are not paying any more for parts nor buying as many more as you might think. The 10.25 million cars and trucks from domestic manufacturers Nelson expects to be sold in 1984 still fall well short of the 13.7 million-unit peak in the 12 months ended March 1979. And that's with stiff quotas on Japanese imports. So, while the carmakers can get buyers to swallow at least some price increases, few auto suppliers see much chance for price hikes. Competition, both domestic and foreign, has been keeping the lid on.

"We're still facing the price competition of offshore supply," says Gerry Mitchell, Dana's chairman. He doesn't mean only Japan, by the way. A lot of it comes from places like the key debtor nations of South America.

"As long as we're not going to put great pressure on Mexico, Brazil and Argentina to repay their debts—and I don't think we should—they are going to force us to hold down our prices. So I don't really anticipate price increases in 1984."

But there are bright spots, Mitchell says. "We've had pretty substantial productivity gains over the recession. I think we're a good deal more competitive than we were."

Right now, companies like Dana and Cummins Engine Co., Inc. have the wind at their back since they specialize in what is currently the hottest segment of the auto supply business: original equipment for the truck market. This year should be a great one for trucks *(see p. 109)*. "It's now in the silly stage," says Mitchell. "Heavy trucks didn't begin to move until September. At the moment the manufacturers are more limited by the ability to get parts than by the ability to get orders. Big leasers who were ordering 50 trucks suddenly don't want 50; they want 100. So suppliers are being urged to speed up delivery to earn the chance for a second order. But that's a nice change from having pressure on profits all the time. I'd much rather be called a son of a bitch for not delivering than for not making a profit."

Look over the performance Yardsticks below, however, and you can see at a glance how difficult this period has been, even for the profit leaders. Snap-on Tools Corp. is the leading producer of tools for auto mechanics, but its return on equity has been dropping from 28% in 1979. Its tactics these past several years have included salary and production freezes and some temporary plant shutdowns. Snap-on's balance sheet remains unusually strong, as can be seen from a glance at the debt/equity Yardstick. The same goes for Genuine Parts, Rockwell International Corp., TRW Inc., Borg-Warner and Champion Spark Plug Co.

Genuine Parts, the $2 billion (sales) Atlanta-based distributor, has maintained good margins in its highly competitive field and has been improving them slowly but steadily over the last ten years. Early and extensive

Auto suppliers

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Tire and rubber												
Goodyear	1	8.8%	7.0%	0.4	1	7.3%	7.0%	2.3%	3	7.4%	1	2.9%
Armstrong Rubber	2	6.4	13.1	0.5	2	6.3	10.0	3.0	1	9.3	2	–2.0
Genl Tire & Rubber	3	6.4	6.0	0.2	3	5.5	5.5	2.8	4	2.0	4	–7.8
B F Goodrich	4	3.7	def	0.6	4	4.8	2.3	def	2	7.5	3	–7.8
Firestone	5	2.8	7.3	0.3	5	3.1	5.7	2.4	5	1.4	5	–11.4
Uniroyal	6	def	4.8	0.8	6	1.8	4.7	1.6	6	–1.8	6	P–D
Medians		**5.1**	**6.5**	**0.5**		**5.2**	**5.6**	**2.4**		**4.7**		**–7.8**
Partsmakers												
Lear Siegler	1	22.1%	15.2%	0.3	4	14.8%	12.1%	4.5%	6	12.3%	1	16.0%
Snap-On Tools	2	21.8	16.4	0.1	2	19.2	14.8	8.7	5	13.7	4	14.0
Purolator	3	20.5	21.9	0.5	3	15.1	15.6	3.9	4	14.4	3	14.0
Genuine Parts	4	20.2	17.6	0.1	1	19.5	16.9	5.1	3	14.7	5	12.8
Rockwell Intl	5	18.5	18.8	0.1	5	14.6	15.9	4.8	19	6.4	2	15.6
TRW	6	17.4	12.2	0.2	9	11.5	8.6	3.5	8	10.9	10	7.7
Federal-Mogul	7	16.3	14.2	0.5'	6	12.4	10.1	5.1	11	10.6	8	11.2
Johnson Controls	8	14.6	15.3	0.3	8	11.6	12.3	4.5	1	25.4	7	11.9
PPG Industries	9	13.9	12.1	0.3	11	10.4	8.9	5.8	15	8.1	9	10.8
Borg-Warner	10	13.5	12.1	0.2	7	12.3	10.9	5.1	13	8.9	6	12.5
Hoover Universal	11	13.1	17.2	0.5	12	9.7	12.2	4.1	17	7.6	12	0.6
Echlin	12	12.6	14.5	0.3	10	10.7	11.9	5.4	2	14.9	11	3.3
Dana	13	11.2	6.6	0.3	13	9.6	6.4	2.6	7	11.1	13	–1.0
Easco	14	11.1	9.0	0.8	15	8.4	6.5	1.9	10	10.7	14	–2.3
Champion Spark Plug	15	9.0	5.8	0.1	14	8.5	5.6	2.8	14	8.2	16	–7.0
Arvin Industries	16	7.9	7.8	0.5	17	6.5	6.6	2.5	22	4.8	17	–7.8
Barnes Group	17	7.4	def	0.5	16	7.0	def	def	9	10.8	15	–6.4
Dayco	18	6.5	1.8	1.3	21	5.0	2.9	0.4	18	7.3	18	–10.3
Sheller-Globe	19	5.9	10.2	0.8	19	5.2	7.4	2.6	24	2.9	23	–17.1
Cummins Engine	20	5.6	def	0.4	20	5.1	def	def	12	9.4	19	–11.3
Libbey-Owens-Ford	21	5.4	4.8	0.3	18	5.8	5.3	2.3	20	6.2	20	–12.3
Eaton	22	5.0	2.0	0.5	23	4.3	3.7	0.8	16	7.9	22	–16.5
Allen Group	23	4.5	def	0.9	22	4.7	2.3	0.0	21	5.7	21	–13.6
A O Smith	24	2.1	2.2	0.5	24	3.2	3.7	0.5	23	3.7	24	–17.7
Medians		**11.9**	**11.2**	**0.4**		**9.7**	**8.0**	**3.2**		**9.2**		**–0.2**
Industry medians		**8.9**	**8.4**	**0.4**		**7.9**	**6.8**	**2.7**		**8.2**		**–2.2**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.

use of computers for tight inventory control has been a major reason for this success. Return on equity might look even stronger if the company used more debt leverage. But, in contrast to many of the 5,000 or so jobbers to whom it sells, Genuine Parts keeps debt totals so small you need a magnifying glass to find them.

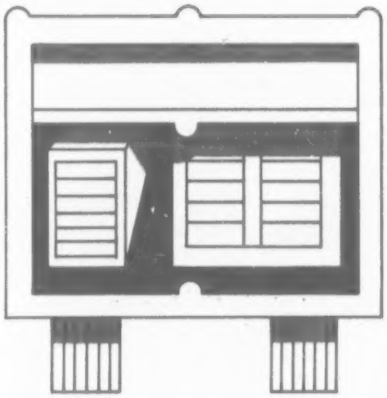
In this age of diversification, of course, it's important to remember that the numbers for several of the companies listed in the table are skewed by nonautomotive operations. Lear Siegler, Inc., for example, gets less than 30% of its sales from auto supplies; 60% of its business is in aerospace, machine tools and electronics. Highly diversified Borg-Warner and TRW get only about 30% of sales here, Rockwell International only about 18% (which is still well over $1 billion). Libbey-Owens-Ford gets roughly 40% of revenues from sales to the auto industry, PPG Industries, Inc., considerably less.

A glance at the bottom of the list is instructive, too. Take A.O. Smith, a company that's now back in the black after moneylosing years in 1980 and 1982. Smith specialties include frames for big cars and light trucks (mainly for General Motors), both of which are now selling well. So why is Smith hurting? Because of big losses in its agricultural-products operation. Meanwhile, Sheller-Globe Corp., still fairly highly leveraged despite a recent stock offering, is trying to blast its way out of the doldrums through capital spending and acquisitions.

Results for the tire and rubber group, most of which have diversified into almost anything that isn't round and doesn't roll, continue to range from dismal to uninspiring. Chemicals have been their favorite diversification, but in many product lines they have merely gone from one buyer's market to another.

What it all boils down to is that the dynamics of the auto supply business have changed as permanently in the last several years as those of the industry it serves. Companies that fail to rework their strategies accordingly may find the sledding even tougher in the years ahead. ■

If you're an aggressive trucker with access to capital, the future is bright. If not, there isn't much you can do about it.



Truckers and shippers

By Lawrence Minard

"NEVER BEFORE HAVE we seen so many companies losing money while a very few firms are making piles of money and heading hog-wild into the future," says Ronald Roth, who is director of statistical research at the American Trucking Association.

Look at the Yardstick companies below. For most of them 1983 was a good year. For some it was a great year. Kansas City's big Yellow Freight System, for example, ranked second only to longtime industry profit leader Roadway Services on the Forbes Yardsticks with earnings of $36.4 million in 1983's first nine months, more than Yellow earned in all of 1981 and 1982 combined. Roadway Services, biggest and most profitable of the common carriers, earned 20.2% on equity and nearly as much on its debt-free capital. Roadway would have done better as 1983 progressed were it not for the fact that around 30% of its operating earnings came from interest on its $400 million cash hoard, which shielded Roadway from some of trucking's operating leverage as the economy recovered.

A $280 million cash position also helps to explain why Consolidated Freightways' latest 12-month return on equity dropped sharply from CF's five-year average. A much more leveraged trucker, IU International's $750 million (sales) Ryder/PIE division lost $10 million pretax in 1982, but chalked up $20 million pretax in 1983 and will probably earn over $40 million in the year ahead.

For the big truckers with money, or good credit lines, the winning strategy is obvious: Invest heavily in equipment and route expansion and slug it out for bigger shares of profitable markets. The new investment should help keep operating costs down and enable marketing men to offer superior service. It should also enable the surviving truckers to dictate pricing in the years ahead as the weaker trucking competitors fold.

Like the airlines, the deregulated trucking companies must watch that upstarts with lower cost structures don't skim away the most profitable business. This is especially true in the easy-to-enter truckload segment. Consolidated, Yellow and Ryder/PIE have all lost business to the upstarts but are now fighting back vigorously.

The best way for a trucker to fight low-cost competition is to offer superior service. Some of the majors are attempting to revive the old intermodal concept that was pioneered by shipping companies. Consolidated Freightways, which has been protecting its flanks by pushing deeper into regional markets, announced in 1983 that it would buy freight forwarder Air Express International. "We want to be able to move a shipper's goods from Yokohama to Indianapolis under one roof by however the customer wants it," says Consolidated spokesman Wilbur Grant. It also made sense since Consolidated already owns a domestic air freight operation. The Air Express deal came unstuck in July of 1983, but Grant says his company is looking for a similar acquisition and is expanding its own freight-forwarding operation.

Yellow Freight, meanwhile, is now reaping the rewards of its hub-and-spoke strategy. Over the last three years it has nearly doubled its freight terminals, over 430 today, at considerable cost to its past profitability. These terminals are tied into a cohesive system of 17 hub depots where Yellow's equipment and drivers are based. As a result, Yellow can both reduce deadheading and increase equipment utilization—and offer shippers more flexible schedules.

Not only is this a formidable defense against startup competition, but when "lane density"—the freight volume moving across a system—picks up modestly on certain routes, profits surge immodestly. Yellow Freight's third-quarter earnings rose 200% on a tonnage increase of just 15%.

This immense operating leverage is also beginning to work wonders for IU's Ryder/PIE. In 1983 it consolidated previously separate Ryder Truck Lines and PIE and thus boosted lane density overnight. Ryder/PIE's operating ratio—a trucker's operating expenses, divided by his operating revenues—dropped from over 100% in 1982 to a highly profitable 93% by September.

To the trucking industry's top brass it is a changed world. "Before deregulation," says Jack Schang, Ryder/PIE's president, "the successful companies were the efficient operators. Today that's not enough. Companies that remain operations-oriented and fail to focus on marketing will be the further casualties."

Schang practices what he preaches. In December he introduced a new shipment-tracing service whereby shippers can dial a toll-free number, punch in a purchase invoice number and immediately learn the whereabouts of their shipments.

In recent years the common carriers have been chasing profitable less-than-truckload (LTL) shipments. Few common carriers, under the ICC's suffocating glove, could offer the reasonably priced, tailor-made services demanded by the nation's largest shippers for their truckload hauls—lumber, say, or chemicals. Result: The full truckload business slipped away to the "private carriage" fleets owned and operated by the shippers themselves. William Legg and Michael Walker, two astute analysts at Baltimore's Alex. Brown & Sons, figure that private carriage now accounts for around two-thirds of all trucked tonnage.

But in time deregulation may reverse that, Legg and Walker argue. With operating authorities easy to obtain, a common carrier can now haul a load of steel one way and back-haul a truckload of lumber much more easily than when ICC permission was required for virtually every commodity. The common carriers will be welcomed by the private shippers. "Shippers don't want to be truckers," says Legg. "They are truckers only because until now they have had no alternative." A truckload specialist that Legg recently helped take public, Arkansas-based, nonunion J.B. Hunt (sales, $62 million), boasts an incredibly low 80% operating ratio.

The big truckers are getting the message. In 1983 IU International bought Alabama-based Poole Truck Lines (sales, $55 million), also nonunion and a truckload specialist. RLC's Matlack division has carved out a profitable niche transporting chemicals. This should benefit RLC in 1984 as Matlack's chemical company customers revive. Ryder System and Leaseway Transportation have both been aggressively expanding their automobile carriage operations, a lucrative segment of the truckload market as auto sales recovered in

Truckers and shippers

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Truckers												
IU International	1	21.1%	13.1%	0.8	4	9.4%	8.0%	2.2%	7	1.8%	2	13.3%
Roadway Services	2	20.6	20.2	0.0	1	19.6	19.8	7.7	3	10.8	3	11.9
Consol Freightways	3	19.2	12.5	0.2	2	15.3	10.2	4.8	5	8.0	4	10.7
Ryder System	4	18.9	16.6	1.0	5	9.1	8.6	4.2	1	19.0	1	22.8
Leaseway Transportation	5	17.1	12.2	1.1	3	9.6	8.2	2.8	2	10.9	5	6.2
Yellow Freight System	6	10.0	16.8	0.2	6	7.2	11.6	3.6	4	10.6	6	–7.7
RLC		**	6.9	1.6		**	5.5	2.1	6	3.0‡‡	7	–24.3‡‡
Medians		19.1	13.1	0.8		9.5	8.6	3.6		10.6		10.7
Other surface transport												
McLean Industries	1	16.9%	19.0%	1.5	4	8.4%	9.8%	4.9%	1	12.1‡‡	1	386.3‡‡
Alexander & Baldwin	2	14.8	13.5	0.5	1	10.4	9.5	11.6	3	3.8	3	8.5
Greyhound	3	14.0	10.3	0.4	3	10.2	8.5	3.6	5	2.5	2	9.8
Transway Intl	4	11.9	7.2	0.4	2	10.3	6.7	1.8	4	3.5	4	–1.4
American President		**	**	**		**	**	1.7	2	10.0‡‡		**
Medians		14.4	11.9	0.5		10.3	9.0	3.6		3.8		9.2
Industry medians		17.0	13.1	0.5		9.9	8.6	3.6		9.0		9.8
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡‡Three-year growth. **Not available; not ranked.

the past year.

Of course, the big truckers will also face plenty of competition from the revitalized railroad companies, now that the ICC has lifted its proscription against the rails owning truckers. No one should be surprised by some large railroad-trucker mergers this year and in 1985.

The nationwide truckers are also bumping up against a new breed of tough, well-capitalized regional truckers with expansion plans of their own. Example: San Francisco's very profitable Viking Freight (revenues, $80 million) has forged agreements with midwestern and eastern regionals which collect and consolidate shipments and ship them by cost-effective rail piggyback to the West, where Viking delivers. Is Viking a regional or a national trucker?

Moreover, many regionals are nonunion shops. Labor accounts for around 60% of a unionized trucker's total operating costs, and union labor costs as much as 40% more than nonunion help. Thus a nonunion company like Viking enjoys a decisive cost advantage of up to 25% over its unionized competition. To redress such an advantage, unionized Consolidated Freightways in 1983 created two nonunionized divisions serving the West and Midwest.

That sensible move immediately induced a Teamsters' grievance. But this is less of a threat than it used to be. The Teamsters' truck-driver ranks have dwindled from around 300,000 in 1979— or 27% of all intercity drivers—to around 200,000 today, or 12%. Teamster leadership knows there is no alternative to wage givebacks and in 1983 proposed a rider to the National Master Freight Agreement that would have allowed employers to rehire laid-off Teamsters at sharply lower wages than they received before they were laid off. But when the proposal was put to a vote in October 1983, the rank-and-file deep-sixed it by a 7-to-1 margin. With the current Master Freight Agreement set to expire Mar. 31 1985, the giveback issue will soon heat up.

Uncompetitive wage rates explain why Greyhound Corp. earned a paltry 10.6% on equity in the latest 12 months. Its Greyhound Lines bus company has been priced out of many once-profitable routes by new bus companies and regional airlines with labor costs around 30% below Greyhound's. Thus a one-way Greyhound ticket from Newark, N.J. to Norfolk, Va. cost $56 last September, vs. $26 on People Express Airlines.

In November Greyhound management said leave the cost-cutting to us. It demanded that Greyhound's 12,700 unionized employees accept a 15% wage cut—and allow the company to hire new workers at rates comparable to those of Greyhound's competition. The workers refused and struck. Violence flared. But by December the union negotiators were recommending that the strikers accept an offer that gave management most of what it wanted.

A big problem for the trucking business is the Multi-employer Pension Plan Amendments Act of 1980. In practice, the act's provisions mean that a failing trucker's pension liability is often greater than remaining shareholders' equity.

Faced with the choice between shutting down and then receiving a huge pension bill from the government, or hanging on until the last equity dollar has been wrung out, most marginal' truckers will opt to hold on—thus helping keep pressure on prices. And since the final extent of the pension liability is unknown, few solvent truckers want to risk acquiring failing lines. "While there is now open entry into trucking," says the ATA's Ron Roth of the paradoxical law, "there is no open exit."

Also hastening the demise of the inefficient truckers is the Surface Transportation Assistance Act of 1982, which became effective in 1983. To help rebuild the country's highways, the act adds a nickel-a-gallon tax on diesel fuel (bringing the tax to nine cents a gallon), and boosts annual user fees from $240 on a typical rig to $1,600 in 1984 and $1,900 by 1988. Because the user fee is payable whether the rig operates or sits in the garage, it will fall hardest on failing truckers with least-used fleets.

There was good news in the act for profitable truckers. Truckers may now haul, on designated national routes, trailers measuring 102 inches wide, vs. the old 96-inch standard. This is important because freight is loaded on 48-inch pallets, which can now be carried two abreast. Equally important, truckers won significantly more freedom to haul two 28-foot-long trailers—"doubles," as they're called—in place of one 48-footer. Doubles, say the truckers, give them much more flexibility, and orders for new trailers are pouring in.

For example, Ryder/PIE's Jack Schang says his company will spend $60 million in 1984, $28 million of it for 2,300 new doubles trailers. Roadway's secretary Doug Wilson says over 90% of Roadway's $124 million equipment spending budget for 1984 is earmarked for the smaller trailers. This order boom bodes very well for Transway International, whose trailer manufacturing division, Great Dane Trailers, worked virtually flat out during most of 1983.

But again, it is feast for a few, famine for most. Roadway can handle the costs of fleet renovation: It has no debt and $400 million in cash. So can most of the other Yardstick truckers, which either carry little debt or have the access to capital commanded by big companies. The majority of smaller companies, however, have neither the earnings nor the willing bankers to finance *their* new fleets. The result, as the ATA's Roth puts it, is a self-fulfilling prophecy whereby "the profitable companies are taking bigger and bigger market shares from a whole lot of companies that will continue to slowly die off." ■

NEW YORK CITY
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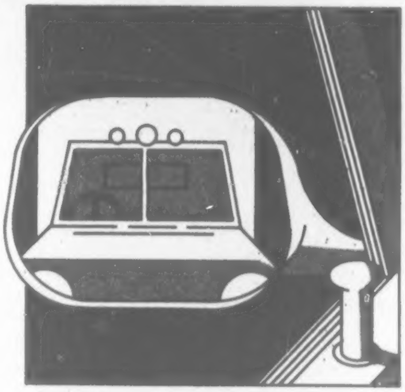
Idle Greyhounds in Manhattan

After a sometimes violent strike, workers prepared to concede.

If 1983 was the Year of the Car, 1984 will be the Year of the Truck—particularly heavy trucks.

Autos and trucks



By John R. Dorfman

DETROIT IS CONFIDENT that 1983's marvelous recovery will continue this year, despite wobbly sales in the late fall. Donald McPherson, chief of GM's North American car operations, predicts that 10.5 million cars, plus 3.5 million trucks, will be sold in 1984. "A darn good year," says he, adding that "Japan's share has to drop." By government fiat, that is, not because consumers would rather buy Detroit products—witness the premiums many dealers in Japanese cars are packing onto their products while dealers in U.S. cars are offering discounts. But the Japanese have extended their "voluntary" limit on exports to the U.S. through March 1985, which means Detroit will continue to enjoy strong nontariff protection. (The new passenger-car limit, starting Apr. 1, is 1.85 million vehicles, vs. 1.68 million the prior three years.) Detroit's sharply improved profits in 1983 should be judged in the light of that not inconsiderable protection.

How long can the industry hope to remain protected from overseas competition? "Reagan," argues Art Davis of Prescott, Ball & Turben, "is a free trader at heart. After the 1984 election, assuming he wins, he's not likely to fight for continued import quotas. Lee Iacocca would have you believe that, without quotas, imports would immediately take 35% of the market, and eventually maybe 50%. I'm more conservative. I figure 28% in 1985 and more than 30% in 1986." That's compared with the 25% or so share imports already hold.

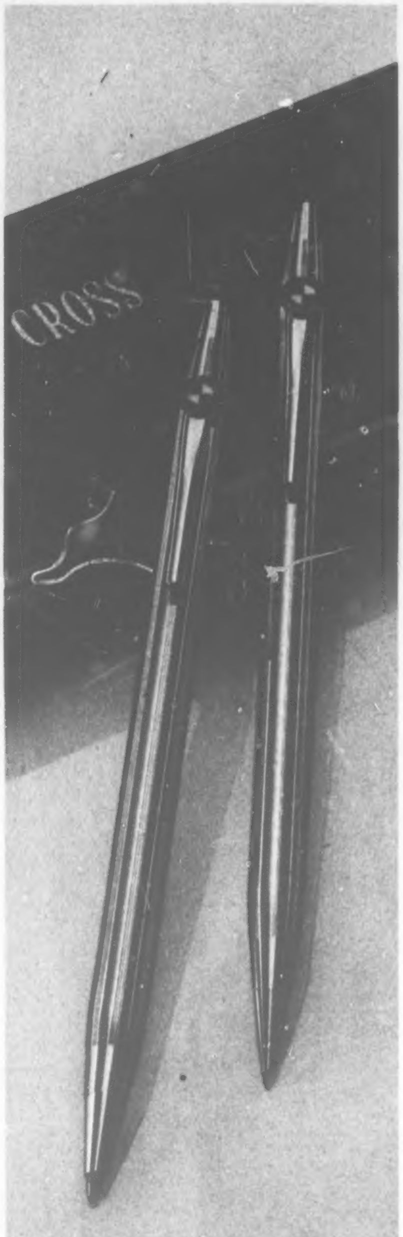
Detroit likes to talk about the ad-

Autos and trucks

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Subaru of America	1	59.2%	45.8%	0.2	1	54.1%	39.1%	4.5%	1	33.0%	1	65.3%
PACCAR	2	14.9	5.3	0.0	2	14.0	5.1	2.5	5	6.9	2	6.7
Signal Cos	3	11.5	3.4	0.3	4	9.4	4.0	1.3	2	14.1	3	6.2
Hyster	4	11.1	0.1	0.2	3	9.6	0.5	0.0	9	5.0	4	2.2
Sperry	5	10.3	6.1	0.3	5	8.4	5.4	2.9	3	8.4	5	2.0
Deere	6	8.3	def	0.4	6	7.0	0.2	def	4	8.4	6	–6.7
General Motors	7	6.7	14.2	0.3	8	6.3	11.8	3.8	6	6.2	7	–13.8
Caterpillar Tractor	8	6.5	def	0.7	7	6.6	def	def	7	6.1	8	–14.3
Fruehauf	9	3.8	def	0.8	9	4.5	1.2	def	8	5.8	9	–17.3
Clark Equipment	10	2.4	3.1	0.3	11	2.6	3.8	1.6	15	–1.2	10	–31.1
Mack Trucks	11	0.1	def	0.6	10	2.8	def	def	17	–7.4‡‡	11	P–D‡‡
Ford Motor	12	def	14.0	0.4	12	def	10.4	2.1	10	4.7	11	P–D
Allis-Chalmers	13	def	def	0.5	13	def	def	def	12	3.7	11	P–D
Intl Harvester	14	def	def	63.2	15	def	def	def	13	0.9	11	P–D
American Motors	15	def	def	2.9	16	def	def	def	11	4.4	16	D–D
Chrysler	16	def	NE	2.2	14	def	11.8	2.0	16	–4.7	16	D–D
Massey-Ferguson	17	def	NE	8.3	17	def	def	def	14	–0.6	11	P–D
Industry medians	16	3.8	def	0.4		4.5	1.2	1.3		5.0		–17.3
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡‡Three-year growth. P–D: profit to deficit. D–D: deficit to deficit. def: deficit
NE: negative equity



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Suddenly, truckmakers have more orders than they can fill.

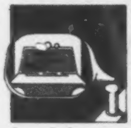
vantages the Japanese enjoy through a favorable exchange rate and tax structure. All true, but the Japanese are not to blame for Detroit's $25-an-hour wage-and-fringe bill, its shaky quality standards and its relatively inefficient plant. "It's true that in productivity, efficiency and cost of production, we are not yet fully competitive with Japan," says Allan Gilmour, Ford's Controller, adding, "but we have made progress."

If the recovery in cars rests on somewhat shaky underpinnings, the recovery in trucks does not. It is going to be a whopper. Ford's and GM's light trucks have been selling well for a year and are gaining share back from the Japanese. In fact, says Maynard Gordon, editor of *Motor News Analysis*, the traditional arrangement is now reversed. These days dealers can coax a few extra trucks out of manufacturers by agreeing to take extra cars. Heavy trucks only started to move in September, but demand is now flaring up fast. U.S. heavy-truck makers, such as Paccar, Mack and International Harvester, face little serious foreign competition.

On the Forbes Yardsticks, Paccar leads the truckmakers, with a 14.9% return on equity over the last five years. None of that comes from leverage, as the company is virtually debt free. The pricey, customized Kenworth and Peterbilt class 8 models Paccar puts out are every independent trucker's dream, so trucking deregulation could work to its advantage.

Mack, until 1983 part of Signal Cos. and now 45% owned by France's Renault, still holds about 18% of the class 8 (the transcontinental, 33,000-pounds-and-up variety) truck market (compared with 18% for Paccar and 23% for International Harvester). So Mack's numbers are bound to look better if heavy-truck sales follow anything like the track they typically do in a strong recovery. The 78,000 or so heavy trucks shipped in 1982 could nearly double by 1986. The route flexibility and pricing latitude triggered by deregulation have made the trucking industry more competitive with the railroads, a good omen for the heavy-truck makers. The truckmakers are also making today's big rigs 20% to 25% more fuel-efficient than those of a few years ago, another factor that could spur sales.

All this bodes well not only for Paccar and Mack but also for International Harvester, which is now roughly 60% trucks and 40% farm equipment.



This virtually guarantees hard-pressed Harvester's survival, but not without further capital restructuring. Glance at the debt-to-equity column in the table on page 109. No, that's not a misprint: Harvester really does have $63.20 in debt for each $1 of equity.

The average truck fleet has 2½ trailers for each tractor, which is why the new-born recovery in trucks is bringing a smile to the lips of Tom Reghanti, president of Fruehauf Corp. "We have had a tremendous upsurge," he says, pointing to a near-record five-month backlog. Fruehauf is gaining market share: It sells 25% to 30% of U.S. trailers, close to triple that of its nearest competitor, Great Dane Trailers (a subsidiary of Transway International). Fruehauf also has a boost from recent legislation allowing 48-foot-long, 102-inch-wide trailers on interstate highways. The new behemoth trailers mean that standard pallets can be carried side by side *(see p. 104)* instead of end to end and offer about 648 more cubic feet than the old ones.

Summer in autos, springtime for trucks. What about farm equipment? Still winter there. Even well-managed Deere is losing money, but with its huge new Iowa factories (FORBES, *Mar. 14, 1983*) it is prepared to gobble market share furiously once it can more fully use those new plants. Don't be fooled by the relatively good showing of Sperry in the Yardsticks. Its profits are coming from computer systems and guidance and control systems, not from the New Holland farm equipment division. As for Massey-Ferguson, the only good thing one can say is that it is less precariously leveraged than Harvester.

A few companies in our table fall into special categories. At the top of the list, as it has been since 1980, is Subaru of America. Approximately 49% owned by Fuji Heavy Industries, it does no manufacturing, only importing and distribution. Needing only thimblefuls of capital and enjoying demand for its product that exceeds the artificially limited supply, the company has racked up astonishing returns on equity. Some might say it deserves them. Subaru has built a loyal customer base, especially in snowbelt areas like New England and Alaska, where it was one of the first companies to offer an attractive small car with four-wheel drive to get through the ice and slush.

Caterpillar Tractor is, of course, best known as the world's largest maker of construction equipment. But it has a sideline in engines, where it has lately been giving Cummins Engine and GM a run for their money in the heavy-truck-engine market. A seven-month strike that ended in April helped neither operating results nor the balance sheet but did bring wage costs under some control. Despite pressing competition from the likes of Japan's Komatsu, Caterpillar remains one of the great American manufacturing companies.

In this industry, as elsewhere in the U.S. economy in 1983, much of the emphasis was on cost-cutting, on reducing break-even points. As far as this involves skimping on research and development and on equipment, the trend has its dark side. But to the extent it cuts fat and not muscle, the trend can only be beneficial. ■

Kan ban? Can do!

One of the key cost advantages of the vaunted Japanese manufacturing system is *kan ban,* the "just-in-time" parts delivery system used by Japanese carmakers. *Kan ban* allows them to keep inventories—and hence interest costs—low.

The concept of just-in-time delivery is certainly not exclusively Japanese. Back in the 1920s workers at Henry Ford's integrated River Rouge assembly plant in Dearborn, Mich. unloaded ore boats on Monday and converted the ore to steel and then to engine blocks by Tuesday afternoon.

But the Japanese have developed *kan ban* in its modern form. Can just-in-time parts delivery be implemented in the U.S.? Yes it can.

Dana Corp. Chairman Gerry Mitchell

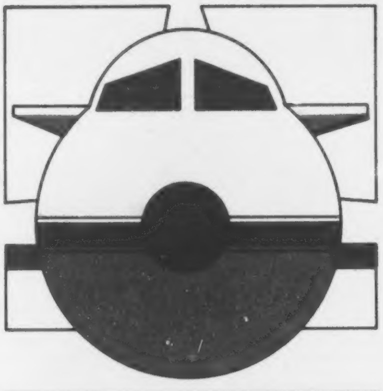
Going the Japanese one better?

Dana Corp. Chairman Gerry Mitchell says that American suppliers like Dana are even going the Japanese one better by allowing more flexible delivery. "With *kan ban* you don't change your assembly schedule," he says. U.S. manufacturers, he goes on, want more flexibility than that.

But it's interesting to ask why American carmakers need all this flexibility. Think, once again, of Henry Ford. His cheap, reliable vehicles were in such demand that he could afford to let buyers pick any color they wanted, so long as it was black. Perhaps Detroit now runs after the 10-day trends too much, offers too many choices, at a loss of efficiency. It's almost as if American manufacturers have become the swing producers of vehicles in the U.S. market.

Whatever direction U.S. carmakers go, it seems clear that they will be giving increased responsibility to key partsmakers. "Bit by bit," says Mitchell, "we are moving our assembly operations adjacent to car assembly plants. We are taking more responsibility for inventory control. We assemble axles at night that are used the next day. We have 19 regional centers offering overnight delivery on truck parts to truck assembly plants. Often a guy has shipped out a truck and he hasn't even paid us for the parts yet." This kind of speed and service, belated as it is, is one reason Mitchell thinks U.S. partsmakers can compete with low-priced imports *(see p. 99)*. "I don't think," he says, "that you can export from Brazil to the U.S. and have a just-in-time delivery system."—J.R.D.

The shakeout resulting from airline deregulation has only just begun. Let battle commence.



Airlines

By Howard Banks

"ALL OF US are going to be subject to a rapidly changing competitive environment from here on in," says Robert Crandall, president of American Airlines. Although the industry outlook might appear to be improving along with the economy, the fact is that, until now, much of the true effect of the 1978 airline deregulation has been buffered and masked by outside events. The harsher they were, the more they served to dampen competition.

First the airlines had to deal with the doubling of fuel prices in 1979-80. That meant the majors had to phase out older gas-guzzling jets sooner than they had anticipated.

Then came the air traffic controllers' strike, which led to government-imposed control of takeoff and landing times—"slots" in airline parlance. This severely limited one of the hoped-for results of deregulation: the right to enter or leave any route, provided at least one carrier remained. In other words, it inhibited competition.

Then came recession and huge losses even for the largest and strongest carriers. Delta, for years the carrier with the best results, lost money for five straight quarters. The industry lost a collective $1 billion in the 12 months to the middle of 1983 before things turned around. Miraculously, the effect of this hemorrhage was mitigated by the financial markets. Convinced that the airlines would be among the first industries to feel the positive effects of economic recovery, and entranced with new issues, Wall Street underwrote over $2.5 billion in airline equity and bonds in the past two years or so.

This year all that will change. On the surface things look as if they are improving: By the end of the third quarter of 1983 the average airline fare in cents per mile was up 10% and traffic was up by 7% to 8%. There was no industrywide fare-cutting by carriers desperate for cash.

But now the full effect of deregulation will be felt for the first time. The last limits on airport slots are due to be lifted at midyear. Other factors favor increased competition: Fuel prices are stable or falling slightly, and economic recovery is gathering momentum. Who will flourish in this environment and who will perish is a function of relative strength of balance sheet and quality of management. But it won't be easy for anyone.

America West Airlines

An America West Boeing 737
"Offer something different."

Picking the obvious winners and those most at risk is relatively easy, despite the uncertainties. But for those airlines that fall in between, almost anything might happen.

Eastern Air Lines is still at great risk. Wage costs are not its problem; Eastern employees were the first to give back part of their regulated fat. The problem is that Eastern tried to spend its way out of the hole by buying new, more efficient equipment. This worked in regulated times if average operating costs could be reduced below the level allowed when fares were set. Trouble is, now the market sets fares. So Eastern merely weakened its already shaky balance sheet. With $2 billion in long-term debt, its debt-to-equity ratio is the third worst in the list. One bright spot: its profitable shuttle.

Republic Airlines, at the bottom of the Forbes Profitability Yardsticks and staggering under a plainly untenable 14.9-to-1 debt-to-equity ratio, is in even graver danger. Republic was created by a merger allowed because the two route systems connected end to end and therefore raised no anticompetitive questions. That is Republic's problem: Its management is stretched as tight as its route pattern and its equity.

In only marginally better shape are airlines like Western (with bad labor relations, a weak balance sheet and a highly competitive market) and Continental, which is otherwise known as Texas Air Corp. Industry leaders are waiting to see if Continental's chairman and president, Frank Lorenzo, succeeds with his bold strategy of using the bankruptcy laws to wrestle down his labor costs.

The jury is also out on another imaginative ploy: Frontier Airlines created a second, nonunion and therefore lower-cost parallel airline called Frontier Horizons, which will operate in the same market as its parent. If this move succeeds, it will likely be imitated.

Economic recovery came just in the nick of time for other airlines: Pan American, for example, is for now at least off the critical list, as the strong dollar triggered a big jump in overseas vacation travel. But there are plenty of questions about its international competitor, Trans World Airlines, which is being spun off from its holding corporation to go on its own. The outcome is likely to be that its sizable, loss-making domestic routes

could shrink by perhaps as much as half. If TWA does contract that much in the home market, it could really be a blessing for the most obvious gainers this coming year: American, Delta, Northwest and United Air Lines. Despite ups and downs, these four have the strength, financial stability, markets and managements to adapt to competition.

Delta is the most conservative of the bunch. Yet listen to Chairman David Garrett: "You have to have a continuous program, almost, to relook at where you are flying, what cities you go into as new markets, to tie into the schedule." United has been the most aggressive in mass marketing. The tip-off to United's change in strategy is the fact that it has reentered many small markets in the West that it dropped early in deregulation. In 1984 it will operate in 43 of the lower 48 states.

Now that American has cost-cutting deals similar to United's, the fight will be on *(see box, opposite)*. Meanwhile, Northwest, with the airline industry's soundest balance sheet, is trying to shuck the image of being a fuddy-duddy, low-cost (poor service) airline. It is going after increased traffic, as well, and has ordered 20 Boeing 757s.

Backed by such things as United's and American's computer reservation systems (being imitated by Delta and others on a smaller scale) and the success of "frequent flyer" loyalty schemes, the market share held by these four has been increasing, to over 56% of all scheduled domestic traffic in 1983. This has raised fears among competitors that the collective market share of the four might reach 65% before the next recession.

This is unlikely. Certainly the Big Four will grow stronger. But the chances are they will channel future profits into strengthening their balance sheets rather than going for increased market share. A straw in the wind: American ended the year with almost $1 billion in cash but will add only a few new aircraft in 1984 (probably DC-9-80s, according to Crandall). Even Delta, which has been on an aircraft shopping spree, is cutting back now and has pushed back deliveries of some of the Boeing 767 and 757 aircraft it has on order, reducing its capital spending program over the coming three years to around $500 million a year. While Delta's Garrett denies that this was prompted by balance sheet considerations, it is a fact that in 1983 Delta's long-term debt had tripled, to around $1 billion. By year-end over $150 million had been trimmed from that so that future spending can now be handled by internal cash flow and the sale of secondhand aircraft.

Two other factors argue against such a market share push by the Big Four: First, Washington might be tempted to reregulate if that happened. Second, competition. The airlines once called regionals, like US Air and Piedmont, are also out there growing and making good returns—more than any of the big trunk lines, as one glance down the latest 12 months column in the Forbes return on equity rankings will attest. And then there is the group of new jet carriers (including a newborn son of Braniff), that has emerged since deregulation, on the wings of Wall Street's new issue boom. There are now 21 of them in service, and, while they controlled only 2.5% of traffic in 1983, they have had a sizable effect on the market power of the majors.

This has been no easy matter, of course, since even the majors are aggressively cutting costs these days. For the startups, the secret has been to find a marketing niche.

New York Air, owned 75% by Texas Air Corp., had three different approaches before it decided to go for the business traveler as well, and not only those interested in the lowest possi-

Airlines

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Federal Express	1	33.7%	22.0%	0.5	2	22.0%	14.7%	8.9%	1	50.8%	1	51.4‡
Emery Air Freight	2	26.5	24.1	1.4	1	22.3	13.5	3.2	13	13.8	5	2.4
USAir Group	3	20.9	12.7	0.7	3	12.1	8.9	4.5	6	19.5	2	26.9
Piedmont Aviation	4	20.9	6.8	1.5	4	10.2	4.5	2.1	4	25.1	3	13.8
Frontier Holdings	5	14.1	def	1.0	5	9.6	def	def	7	19.2	4	4.2
PSA	6	13.1	def	1.7	6	8.4	0.7	def	8	19.0		D–P
Delta Air Lines	7	8.2	def	0.9	7	5.5	def	def	9	15.5	6	–4.9
Northwest Airlines	8	3.2	4.2	0.0	11	2.4	3.4	1.7	10	15.1	7	–16.3
AMR	9	def	9.9	1.6	9	3.0	6.8	2.4	12	13.9	8	P–D
Trans World	10	def	def	1.5	8	3.9	3.6	def	17	10.4	8	P–D
UAL	11	def	2.0	1.5	12	1.6	3.8	0.7	15	11.0	8	P–D
Tiger International	12	def	def	4.8	13	1.5	def	def	5	23.8	8	P–D
Pan Am World Airways	13	def	def	3.7	17	def	def	def	11	14.7	8	P–D
Eastern Air Lines	14	def	def	5.4	14	1.3	def	def	14	13.5	8	P–D
Western Air Lines	15	def	def	5.2	16	def	def	def	16	10.5	8	P–D
Texas Air	16	def	def	8.5	10	2.9	def	def	2	46.6	16	D–D
Republic Airlines	17	def	def	14.9	15	def	def	def	3	42.1	8	P–D
Industry medians		def	def	1.5		3.8	0.7	def		15.5		P–D
All-industry medians		15.1	12.6	0.4		10.3	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. D–P: deficit to profit; not ranked. D–D: deficit to deficit. def: deficit.

ble fare. It turned a profit for the first time last summer. Others, such as Midway and America West, have also gone for the business market in similar ways: low but not rock-bottom fares; fewer, bigger seats; decent snacks; free drinks; and carry-on baggage space. Most important, from the airlines' view, they have centered their operations at hubs not dominated by even a big regional like Frontier. "You have to offer something different to persuade passengers to choose you over other carriers," says Mark Coleman, marketing vice president for America West, which plans to add two to three new aircraft every 90 days until it has over 40 in all.

One saving grace is the so-called halo effect: Low fares and new service attract people who would not otherwise have flown at all. For example, a new carrier, Jet America, began operating from a base at Long Beach, Calif., an airport ignored by the majors. American and United both moved in promptly. But instead of squashing Jet America, the addition of the two majors in this case made Long Beach a more attractive airport, and people began driving there instead of fighting the freeways to Los Angeles airport.

The classic example of the halo is the small-package overnight delivery business. Invented by Federal Express' chairman and president, Fred Smith, it has been widely copied. Now everybody is inured to the outrageous notion of spending at least $10 to do what the Postal Service should do for pennies. But look at the table. Emery Air Freight is right up there on the industry Profitability Yardsticks with Federal, outperforming all others.

Deregulation is also having a major effect on the aircraft that the airlines now want to operate. Summing it up neatly, US Air's chairman and president, Edwin Colodny, says: "Under deregulation, smaller is better." Why? Because—apart from their lower operating costs—three smaller planes replacing one big one can tackle three market segments instead of one.

Out in California, where United is back in all sorts of markets, the local carrier, Pacific Southwest Airlines (PSA), has simply switched to the peripheral airports around those big cities. The problem is that many of these airports, like Orange County and Burbank, are in very noise-conscious communities and some are in very small markets. So PSA ordered 20 of British Aerospace's BAe 146 "feederliners," which have 100 seats and the virtue of being quiet.

But as airline deregulation moves toward its final official act—the sunset of the Civil Aeronautics Board on Dec. 31, 1984—there is an ominous ring to one change under way.

Part of the fallout of the Continental "bankruptcy" was that other carriers refused to carry passengers holding Continental tickets. Until then tickets from a carrier in trouble had been accepted as an offshoot of the airlines' industrywide interline agreements under what was called the default protection plan. Now, United, American and Delta have led a move to end this industrywide deal and to switch instead to a system of bilateral agreements, so that they only make swap agreements with carriers not in any trouble.

Taken to an extreme not yet even hinted at, this kind of picking at the edges of the interline agreement (a cornerstone of the industry's development over the years) could end up so that passengers could not check their bags through on airlines with no agreement, instead being forced to buy separate tickets and all sorts of other horrors. Now, that really would give deregulation a bad name. ■

The (new) American way

American Airlines is now two airlines in one, says President Bob Crandall. There's the old, high-cost airline and the new, low-cost one—that is, new employees hired at substantially lower pay.

"Our new labor contracts make it possible for us to grow at costs that are very competitive with new carriers," says Crandall. "The larger we make the company, the greater average effect we have on overall costs and the more we get from the low-cost growth."

It means a couple of other major things, too. Instead of grounding older Boeing 727-100s as uneconomic, they can be profitably kept in service. That will give American 22 or 23 aircraft already paid for and ready to go that it would otherwise have had to replace. "When you sell old airplanes, they don't get ground up and made into tuna cans; they go to a competitor. Instead, now that we can afford it, why not fly them ourselves?" asks Crandall.

Lower break-even points will also allow American to compete in smaller market segments it could not profitably enter before. Crandall also expects the company to have more confidence in planning new equipment orders.

But that's for the future, he says. American has $1 billion in cash reserves, but unless interest rates fall sharply, Crandall doesn't plan to retire much of the company's $1.5 billion long-term debt, diversify out of the industry or go on an aircraft buying spree. Better to stay liquid.

What does he want to do? Crandall, known for being earthily outspoken, is the guy who was taped in February 1982 seemingly talking about fares with Howard Putnam, then boss of old, broke Braniff. He got into hot water with the Justice Department over that, and again over bias in the computer reservation systems that American and United dominate.

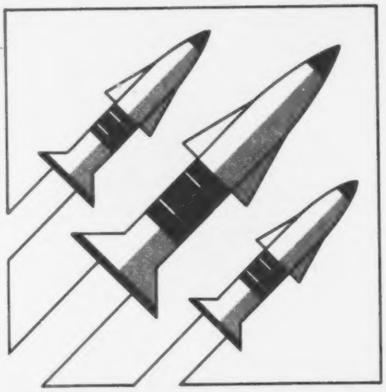
He concedes that the major carriers may have to give ground on the computer reservation matter. But all that does not inhibit him from coming up with ideas that will raise yet more flags at the Justice Department—which of course is certain to gain increased influence through its antitrust powers over the airline industry once the Civil Aeronautics Board dies.

For example, Crandall is no big fan of the CAB's old policy of opposing airline mergers unless one party was at death's door, and then to insist that the acquiror take on all the employees of the acquired. "That policy encouraged people to leave a company alone until it failed and then to acquire only its assets. Maybe that's not the smartest social policy," says Crandall.

He also favors greater standardization of aircraft, which today are often extensively modified to suit individual carriers' whims. Standardized aircraft, says Crandall, could be priced and depreciated according to their actual useful life, say 20 years, instead of the much shorter period often used, especially by normally profitable carriers like Delta and Northwest. And why not finance such deals off the airlines' books, through some kind of "Hertz-rent-a-plane," the way railroad tank cars are financed?

Nothing like a little adversity to stir the mental juices.—**H.B.**

For 1984 and 1985, order books are fat, and all's right with the world for most companies. How many other industries can say the same?



Aerospace and defense

By Subrata N. Chakravarty

IN THE THIRD YEAR of the Reagan defense buildup, 14 of the 30 aerospace and defense industry leaders ranked below were already showing improved profitability on the latest 12-month Yardsticks.

More than doubling its return in the past 12 months was General Dynamics, the nation's largest defense contractor, which kept rolling along with three major programs—the Trident submarine, the F-16 fighter and the M1 tank—and a host of smaller ones. The third $1.3 billion Trident was delivered to the Navy, one began sea trials and seven more are on order. With the Navy planning to build at least 15 of the gigantic submarines, the program should continue well into the next decade. The company also won a major victory in 1983 when Turkey picked GD's F-16 fighter for its air force. The contract, worth some $5 billion over the next five years, is the first time the cheaper F-16 has beaten out McDonnell Douglas' F/A-18 in head-to-head competition for foreign orders. GD believes it won't be the last. "We believe we have an edge in small countries, where cost is a more important factor," says GD Chairman David Lewis.

With the old Chrysler tank division a part of GD for a full year, Lewis says the company has solved some technical problems on the troubled M1 tank, and the tanks are now being turned out at the rate of 60 per month.

General Dynamics also makes sea- and land-launched cruise missiles, of the type some Europeans have been demonstrating against, and a variety of tactical missiles. In the wings, Lewis hopes, is a small, mobile companion to the MX ballistic missile, dubbed the Midget Man, on which GD has done much of the initial research for the Air Force.

GD did have a few setbacks in 1983. It lost $1 billion in potential business when the Army canceled the Viper antitank missile program because it proved unable to penetrate the latest Soviet armor. The fact that the price of the missile had also increased from $78 to $1,000 each probably didn't help. So the Army is now testing a Swedish antitank missile, the AT-4.

Grumman's X-29
The technology of the future?

It was an important year for a couple of other contractors as well. Large orders for FMC Corp.'s M2 Infantry Fighting Vehicle (FORBES, *Nov. 7, 1983*) added that company to the aerospace and defense industry listing. Tenneco did not get added to the list, but the future of its Newport News division is assured for years to come, not only because it is the designer and one of the builders of the Los Angeles class attack submarines but also because it is the only builder of aircraft carriers. Under construction is the nuclear supercarrier *Theodore Roosevelt*. In 1983 Congress funded two more: the *George Washington* and the *Abraham Lincoln*. That will keep the yard busy well into the next decade.

It was also a big year for Rockwell, which now gets over 60% of its revenues from government business. As the company began building the first B-1B bombers in the 100-aircraft, $20 billion program, revenues on the contract jumped from $650 million in 1982 to $1.7 billion in 1983 and should hit $2.2 billion in 1984. Also important for Rockwell is the fact that Congress finally, if reluctantly, funded the MX missile. Martin Marietta may be the prime contractor, but at this stage Rockwell has the largest share of the revenues. Work on the fourth-stage engine and the guidance and control system has so far brought in $1.5 billion.

Meanwhile, its defense electronics grew spectacularly, to $1.2 billion, in 1983. "We expect it to continue to grow sharply," says Rockwell President Donald Beall, with good reason. Rockwell also won a $1.2 billion multiyear contract for construction of the Navstar satellite navigation system for the Air Force. That helped ease the pain of the stunning loss to Lockheed of a 15-year, $6 billion operations contract for the space shuttle program, blamed by some on Rockwell's management control problems. Says Beall: "It hurts more from the standpoint of pride than it does financially."

McDonnell Douglas Corp. executives must have heaved a sigh of relief in 1983. MDC's major hope for defense revenues ($40 billion worth) is the F/A-18 strike fighter for the Navy. That program won approval and funding last year despite strong congressional criticism, (FORBES, *Apr. 11, 1983*), increasing the likelihood that most of the intended 1,400 aircraft will eventually be built. "The plane is really proving itself with the people that use it," says McDonnell Douglas CEO Sanford McDonnell.

For New York's Grumman it was the year of the lobbyist. The Navy had proposed halting production of the F-14 fighter and the A-6 bomber until the aircraft could be upgraded in 1989. Frantic lobbying and the support of the House Defense Appropriations subcommittee chairman, Queens, N.Y. Representative Joseph Addabbo, helped to persuade the Navy to reconsider its plans. For the moment, Grumman retains its stable of five aging Navy planes, plus the reconfiguration of an Air Force bomber for electronic warfare and several subcontracts. The company's performance was also sharply improved—return on equity almost doubled last year—by the disposal of its disastrous Flxible bus division. A major hope is the X-29 forward swept wing aircraft, whose technology might be important to future generations of aircraft.

But there were setbacks in the defense business, too. Todd Shipyards, 1983's industry leader, clung to its top ranking, but its 12-month return on equity dropped sharply because of the increase in equity, the recession in commercial shipbuilding and heavy capital expenditures to expand facilities. Also, a nine-week strike in two West Coast shipyards wiped out the company's second quarter. But all that, says Chairman J.T. Gilbride, is in the past. With $759 million in backlogged contracts for frigates, and the hope of additional contracts as well, "Nineteen-eighty-four will be a very satisfactory year," Gilbride predicts happily.

Not every defense contractor can say that. Take Northrop. On the Yardsticks, the company looks perfectly respectable, having improved its financial position enormously in 1983, turning a loss into a substantial profit in the first nine months of the year. In part that was the result of its 40% share of the F-18 program, its research contract on the "Stealth" bomber and navigation and guidance subcontracts for several missiles. The largest part of the swing, however, came from reduced expenditures on the F-20 fighter, which was to have been Northrop's shining light until the huge, hoped-for orders for the Stealth bomber materialized at the end of the decade. Alas, would 'twere so.

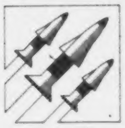
The F-20 is a follow-on to Northrop's earlier F-5, which was the workhorse of 30 air forces. But the F-20 is relatively cheap, versatile and independently developed, and paid for—and these seeming virtues, ironically, constitute a problem. The U.S. Air Force didn't find the F-20 technologically flashy enough to buy. Meanwhile, many of the nations that fly the F-5 and are the most likely customers for the F-20 have been offered

Aerospace and defense

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Todd Shipyards	1	29.2%	17.1%	0.2	5	16.9%	10.4%	3.1%	3	20.2%		D–P
Lockheed	2	27.0	50.6	2.0	20	10.9	23.2	3.9	20	9.7	25	–16.1%
Computer Sciences	3	23.4	11.0	0.4	10	14.7	9.1	2.2	4	19.9	10	14.8
Raytheon	4	23.0	17.4	0.0	1	22.0	17.0	5.2	12	15.1	5	17.8
Fairchild Industries	5	22.1	6.1	0.4	7	16.5	6.5	2.7	1	24.3	1	28.4
Boeing	6	22.1	12.4	0.1	2	18.3	8.9	3.2	6	17.8	4	23.8
Lear Siegler	7	22.1	15.2	0.3	9	14.8	12.1	4.5	16	12.3	7	16.0
Morton Thiokol	8	20.6	16.3	0.2	8	15.6	15.7	5.2	14	12.4	2	26.9
Pneumo	9	20.4	27.2	0.7	17	12.2	14.1	2.7	11	15.3	6	16.9
Wyman-Gordon	10	20.0	14.4	0.1	6	16.6	12.2	10.5	15	12.4	9	15.2
Sundstrand	11	19.4	9.3	0.2	13	13.6	7.7	5.0	19	9.7	11	13.5
General Dynamics	12	19.3	23.0	0.0	12	14.5	17.4	3.8	9	16.3	3	25.5
Sanders Associates	13	18.7	16.4	0.0	4	17.3	14.4	6.6	8	17.4		D–P
E-Systems	14	18.7	25.6	0.1	3	17.6	24.7	6.4	10	15.4	14	12.6
Rockwell Intl	15	18.5	18.8	0.1	11	14.6	15.9	4.8	25	6.4	8	15.6
Martin Marietta	16	17.9	22.3	1.4	19	11.4	6.4	2.8	5	17.8	13	12.7
Rohr Industries	17	16.5	21.7	0.4	21	10.8	15.0	4.2	24	6.6		D–P
United Technologies	18	16.3	14.7	0.3	18	12.1	11.0	3.4	2	21.1	16	8.9
Gates Learjet	19	15.0	0.2	0.2	14	12.9	1.1	0.0	7	17.4	18	6.5
Northrop	20	14.3	14.8	0.0	15	12.9	13.4	2.4	18	10.5	19	3.4
FMC	21	12.8	12.1	0.3	22	9.3	8.6	4.6	23	7.9	17	7.1
McDonnell Douglas	22	12.6	13.5	0.1	16	12.5	13.3	3.2	13	14.2	15	10.4
Sperry	23	10.3	6.1	0.3	25	8.4	5.4	2.9	22	8.4	20	2.0
Textron	24	10.2	6.7	0.2	23	8.9	6.4	2.9	27	3.8	21	–1.7
Cessna Aircraft	25	10.0	def	0.1	24	8.8	def	def	21	9.4	22	–2.4
Grumman	26	9.6	18.2	0.4	26	8.3	11.9	3.4	26	5.9	23	–5.7
Bangor Punta	27	6.8	def	0.6	28	5.1	def	def	17	11.7	12	13.5
Genl Tire & Rubber	28	6.4	6.0	0.2	27	5.5	5.5	2.8	29	2.0	24	–7.8
Singer	29	def	0.1	0.7	29	1.7	3.0	0.2	28	2.7	26	D–D
Gulfstream Aerospace		**	67.5	0.6		**	30.8	8.3		**		**
Industry medians		18.5	14.8	0.2		12.9	11.5	3.3		12.4		12.7
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
D–D: deficit to deficit. D–P: deficit to profit; not ranked. def: deficit. **Not available; not ranked.



the flashier F-16 by the U.S. government. After all, every F-16 it helps sell recovers for the government part of the money it paid General Dynamics to develop the plane. But every F-20 it helps to sell only adds to Northrop's bottom line and Chairman Thomas V. Jones' bonus. The result is that, after years of sales efforts and more than a year of flight demonstrations, Northrop has yet to garner an order for the F-20. Despite strenuous denials by the company, Northrop may have to abandon its $600 million investment in the F-20. The investment has been charged off as incurred, so ending the program won't mean massive writeoffs. It will, however, somewhat blight the next few years.

The commercial aerospace picture still looks gloomy domestically. It takes healthy airlines to support a commercial aircraft business, and most airlines are anything but healthy at the moment *(see p. 139)*. Still, with traffic building up a little, so is the order rate. In the highly competitive medium-range market, McDonnell Douglas got orders for 34 150-seat MD-80 jets in the first three quarters of 1983, vs. 7 in 1982. Whether it can match the 77 planes ordered in 1982's fourth quarter won't be known for a while.

McDonnell Douglas has yet to make a cumulative profit in commercial aircraft after more than 17 years in the business, but that doesn't keep Sandy McDonnell from hoping. "Sooner or later, airline financial performance will emerge from the effects of deregulation and the recession," he says optimistically. He obviously doesn't think that's going to be any time soon, however. MDC just canceled development on two new planes: the MD-90 and MD-100. So for the foreseeable future, they have only the MD-80 in the commercial aircraft market. In the meantime, MDC has apparently decided to concentrate on building its promising computer business via the proposed $400 million acquisition of Tymshare, an information and telecommunications company.

More bang for the buck

If the Pentagon were a corporation, Deputy Secretary of Defense Paul Thayer would be its chief operating officer. He comes well equipped for the job. A onetime Navy fighter ace and test pilot for Vought Corp., Thayer became chief executive of its corporate parent, LTV, in 1970 and pulled it back from the brink of bankruptcy. He joined the Department of Defense last January and has been vociferous about the need for better management of the defense budget. Here, notes from a recent conversation with Thayer on some important concerns.

You have said procurement costs could be reduced from 10% to 30% if equipment were made right the first time. That's quite an indictment of defense contractors.

Thayer: There is certainly room for improvement there. But it's not always the fault of the defense contractor. I think there's a lot of room for improvement in the Pentagon and the acquisition process, too. It's also the DOD that keeps changing its mind. We must define what we want well enough so that there is little room for misunderstanding in the design, and then stick with it. You don't increase cost effectiveness when you jack a program around from year to year by increasing and decreasing its production rate because of budget restrictions. Also, [we must] keep changes down to an absolute minimum, which means having them approved at a high enough level so that there is a distinct control over changes that add to cost.

What else can be done?

Thayer: A lot of the restrictions that prevent the Department of Defense from saving money result from congressional interference. We need to close bases, but Congress won't let us. Now, we should certainly depend on Congress to force us to articulate the threat and what we think we need to do to respond to that threat. But when it comes down to nickel-and-diming programs and just arbitrarily chopping here and there, that's no way to run defense procurement. It louses up some very good programs. I don't think they should tell you: "You can't have $2 billion in order to make this program come true. We'll give you half of that, but go ahead and make it come true anyway." Or force us into taking programs that we've not even asked for. Or force us to take money from one program and put it in another.—S.N.C.

Boeing, with orders for 117 planes in the first three quarters, topped its total for all of 1982. But it remains very cautious about the significance of the pickup in orders. One reason is that almost 70% of those orders came from foreign airlines, which shows that domestic airlines have yet to turn the corner. Boeing's drawing boards are not crowded, either. Only stretched variants of the 737 and the 767 are under development.

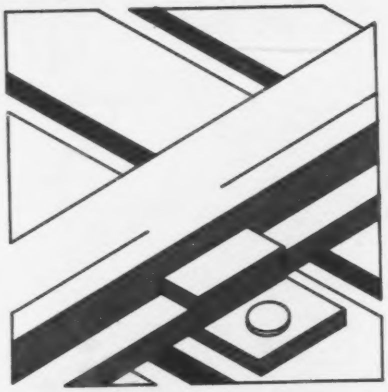
If 1983 was a boom year for the defense business and only modestly encouraging for commercial aircraft, it was an unmitigated disaster for business and civil aircraft. Cessna has been in a two-year tailspin, tumbling to a $19 million loss, the first in its history, versus a profit of over $60 million as recently as 1981. The rest of the companies in civil aviation are doing no better, although Piper and Beech, as divisions of larger companies, are somewhat sheltered and Gates Learjet was bailed out by a large Air Force lease order in 1983.

For most defense contractors the question of the hour is whether further increases in defense spending are likely. It was a struggle to get an inflation-adjusted 3% real increase in funding for fiscal year 1984, despite President Reagan's demands for a 10% hike. And fiscal 1985 could be even more of a struggle. Congress, eyeing the 1984 election, is increasingly restive about raising the defense budget at the expense of social programs. According to Wolfgang Demisch, First Boston's respected aerospace analyst, Defense Secretary Caspar Weinberger reportedly plans to ask for a phenomenal increase of $53 billion, or 21%, in the fiscal year 1985 defense budget, to $310 billion. His chances of getting it, however, are virtually nil. "A real growth of 5% will be hard to accomplish," says General Dynamics' David Lewis.

In 1984 the fight to limit the growth in the defense budget is likely to center on the Navy. But defense contractors aren't really too worried about it. "The Navy program is so far advanced, there is no way you can possibly turn it off," says Todd Shipyard's Gilbride. "The debate will go on, but the Navy will get its 600-ship fleet." For 1984 and 1985, anyway, order books are fat and all's right with the world for most companies.

How many other industries can say as much? ■

In this industry, at least, deregulation has been a real blessing. You will see it in the numbers this year, and, most probably, in the years that follow.



Railroads

By James Cook

As the newly deregulated $27 billion railroad industry emerged last year from the worst recession since the Thirties, the important thing was that the industry overall was still making money. Even Conrail, repository for most of the bankrupt railroads in the East, was running a profit. Only Illinois Central Gulf showed an operating loss.

Southern and Norfolk & Western crews celebrate merger day at Norfolk, Va.

One good merger deserves another. But how far should the industry go?

The Staggers Act effectively deregulated the industry three years ago, and in 1983 the effect of that emancipation finally began to make itself felt. First-half ton-miles were off 3.3%, but as the recovery gathered steam in the third quarter, weekly ton-miles began rising by 6%, 8%, 10% and more. Aided by an accounting change wherein track improvements are depreciated rather than expensed, the industry's inherent leverage began producing results—a 37% third-quarter earnings gain for Norfolk Southern, 55% for Burlington Northern, and a $2.5 million loss converted to a $10 million profit for Chicago & North Western.

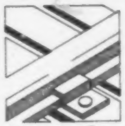
Coupled with the fuel cost advantage the energy crisis had given the railroads, deregulation seemed finally to have arrested the long-term decline in the industry's market share. Whether such gains could be sustained, much less enlarged, remains an open question. But for the first time in a half-century the opportunity at least is there.

The consequence of deregulation, however, was to encourage every railroad in the business to become more self-contained. Because most of the costs of rail transport lie in picking up and delivering traffic, railroads have always tried to get as long a haul as possible, so as to generate the maximum possible revenue to offset those costs. To be sure that customers had the option wherever possible of considering alternative routes, the Interstate Commerce Commission used to require the railroads to set joint rates with connecting roads. But not anymore. "Deregulation has got rid of the antitrust immunity, and that makes it difficult to talk to other railroads," says Norfolk Southern's Chairman Robert B. Claytor. "It's a lot easier if you've got your own system and don't have to talk to anybody." And so the rules of the game have changed, and railroads across the country have begun closing their gateways—the interchange points with connecting lines. "A closed gateway," explain's Union Pacific's boss, William S. Cook, "does not entail a physical closing of an interchange point, but the refusal to post a tariff [a rate] on a specific commodity at that interchange, which technically closes that routing to competitive participation."

The first sign of what was to come was foreshadowed in 1980 when Chessie Systems and Seaboard Coastline merged to form the CSX system. CSX blanketed much of the area served by the Southern and Norfolk & Western systems. Where Chessie and Seaboard used to maintain joint routes with Southern and N&W, CSX could often offer single-system service between those same points. So it no longer needed Southern and N&W.

In response, Southern and N&W felt they had no choice but to merge themselves. So 18 months ago they became the Norfolk Southern system. "Each railroad," says Claytor, "has to serve as many points as it can so it can compete."

The pressure did not come from CSX alone. Conrail's predecessors had complained for years about how unfairly revenues were divided with its connections in the West and South. So when deregulation took place, Conrail began closing gateways and raising switching charges. The result was that piggyback traffic, which once moved out of Chicago for New York, for instance, could no longer move over the Norfolk & Western to



Buffalo and then to New York by way of Conrail's Lehigh Valley affiliate. Henceforward, it would go Conrail all the way. "Conrail will not work with you if they can make more handling it on their system," says Claytor. "That's understandable, but it's a consequence of deregulation." Another consequence, of course, is to reduce the shipper's freedom of choice in routing. Often, he now goes all the way, or not at all.

Naturally, competitors retaliated where they could. "Where our competitors have initiated such activity," says Santa Fe's recently retired chairman, John Reed, "we have reciprocated and taken other steps to protect our interests."

In the West, when the Union Pacific sucked the Missouri Pacific and Western Pacific into its craw, it created tremendous competitive pressures for Southern Pacific. SP claimed that UP was planning to divert over $90 million a year in westbound traffic onto its newly acquired Western Pacific lines between Ogden, Utah and San Francisco. Santa Fe could conceivably have gone it alone, but not Southern Pacific, and once Santa Fe threatened to work out the first transcontinental rail merger by acquiring Conrail, Southern Pacific bowed to the inevitable and a few weeks later agreed to merge with Santa Fe. The $1 billion in cash SP will get from selling Ticor and SP Telecommunications (which gives SP the highest ROE in the business) would enable the merged company to develop its considerable natural resources and real estate potential.

So thus far deregulation has stepped up the creation of a half-dozen overlapping balanced, regional systems. All six have produced considerable uniformity of results, though the inclusion of capital gains and other nonrecurring gains in income, as in the case of Southern Pacific, obscures this on the Forbes industry Yardsticks below. How long this balance will be maintained is far from clear. The Department of Transportation is eager to sell Conrail to somebody to get it off the government's back. But so far only Conrail's labor unions have made a firm offer, and the DOT would like a sponsor with somewhat more substantial financial resources: Santa Fe, Norfolk Southern, IU International—all of whom have been reported to be interested.

With its plant shrunken and its labor force reduced, Conrail's attractions are considerable. Even at its new, smaller scale, it produces close to 15% of all rail traffic generated in the U.S. With enough government pressure behind the sale, some railroad may yet leap to the bait, and the race to create countervailing transcontinental systems may begin.

Whether the U.S. really needs transcontinental railroads is another question. The amount of transcontinental traffic is minimal, though not so minimal as to discourage an ambitious CEO from winning a place in history by establishing one.

Regional systems are another matter. More than one railroad executive has seen the attraction of regional monopolies of the sort Conrail represents in the Northeast and Burlington Northern in the Northwest. Even so, to commit the entire rail transport of a region to a single system, as the Penn Central merger did, may pose risks for any regional economy greater than the public interest would find acceptable.

Deregulation, of course, did more than heighten the competition between the emerging single-line systems. It also increased enormously the industry's ability to compete and cooperate with the trucking industry. For the first time railroads are able to set piggyback rates as they please and move into and out of markets at will. "Rail deregulation," as the Burlington Northern sees it, "allows us to offer contract rates and other services that make piggyback more attractive to truck lines. This intermodal cooperation combines the flexibility of trucks with the inherent efficiency of the railroad and lowers shipping costs to customers."

What makes piggyback so exciting is that it has been opening up whole new markets to the railroads. In the last half-century, the railroads have come to depend primarily on bulk commodities like coal, grain and chemicals for their living. Piggyback puts the industry back in touch with the dynamic growth segments of the U.S. economy, from high-technology products to perishables.

Piggyback traffic has been growing briskly for some time, of course. It didn't even falter during the recession. But the gloves are now off, and railroads like Santa Fe, which already

Railroads

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Chic & North Western	1	16.8%	5.2%	1.2	7	6.5%	4.7%	1.1%	5	9.9%	6	9.6%
Norfolk Southern	2	14.0	8.5	0.3	1	8.7	5.8	9.5	8	8.3	3	13.6
Union Pacific	3	13.4	9.4	0.5	2	8.6	5.5	4.8	1	21.6	4	13.5
Burlington Northern	4	11.0	13.0	0.4	3	7.9	9.3	8.6	3	16.5	1	20.2
Southern Pacific	5	10.5	22.7	0.5	5	7.0	13.1	19.7	7	8.7	2	16.2
Santa Fe Industries	6	10.4	7.5	0.2	4	7.1	5.1	5.9	4	13.0	7	9.2
CSX	7	9.6	4.1	0.5	6	6.6†	4.0	2.8	6	9.6	5	10.1
IC Industries	8	8.3	4.6	0.8	8	5.5	4.2	1.6	2	16.5	8	3.1
Industry medians		10.8	8.0	0.5		7.1	5.3	5.4		11.5		11.8
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
†Four-year average.

gets over 25% of its revenues from piggyback, hope for considerable growth over the years ahead. Thanks to piggyback, in Florida and California CSX, SP and Santa Fe once again captured an important chunk of the fresh fruit and vegetables traffic they had abandoned to the truckers a quarter-century before.

Most railroads are not likely to move into trucking as such on any large scale. It's too costly, too difficult and perhaps too incompatible with the railroads' volume-approach to the business. But the industry may well move into other forms of transportation. Both Burlington Northern and CSX (for quite different reasons) have moved to acquire natural gas pipelines, BN with El Paso and CSX with Texas Gas, for example. More to the point, CSX has also asked the ICC for permission to get into water transport as well, having acquired American Commercial Lines with Texas Gas. Most promising of all, CSX has worked out a deal to lease up to 4,000 miles of its right-of-way to MCI Communications for a high-speed fiber-optic data and voice communications line in exchange for $36 million over a period of years and free, if limited, use of the MCI system.

Most of the industry remains, inevitably, very much a captive of its economic geography. If you serve the South or West where the local economy has been booming, as the Union Pacific and Norfolk Southern do, you can hardly fail to outperform the Milwaukee or Conrail, which serve the industrially stagnant East or Midwest. If you have coal or grain in your territory, as Santa Fe and Burlington Northern have, you are bound to outperform a line like the Southern Pacific, which never had much of either, never mind the Illinois Central Gulf, which faces barge competition the length of its mid-America route.

So it's even more surprising that, by and large, the railroads have been so late in diversifying and then have done it so fitfully. In the West, where the Santa Fe, Southern Pacific, Union Pacific and Burlington Northern had their land grant heritage from the 19th century, the railroads have been slow to capitalize on them. Nobody has gone farther and faster than the Union Pacific, which, since the acquisition of Champlin Petroleum in 1970, is more oil company than railroad. (The oil component, in fact, largely explains why both Union Pacific and Santa Fe have grown much faster than the industry in recent years.) But Santa Fe and Burlington have worked hard to catch up, Santa Fe with its holdings in coal, oil, lumber and uranium, Burlington in coal, oil, timber and, now, natural gas, with the acquisition of El Paso.

Southern Pacific diversified more ambitiously. As the profitability of its rail operation declined, it acquired a title insurance company and had a stunning success in building a telecommunications business. But it lacked the capital to nurture both and in the end sold them.

The Chicago & North Western, meanwhile, conglomerated under the name of Northwest Industries, which then sold the railroad to its employees—who have since taken it public. Under Jim Wolfe, North Western has worked wonders in building a new life out of the mistakes of others, ruthlessly contracting its system to meet the level of its traffic. It has also fallen heir to both the bankrupt Milwaukee and Rock Island systems—and has acquired parts of one and hopes to acquire what remains of the other—and has bulldozed its way into the Wyoming coal fields in joint ventures with UP and BN. Within five years UP-NW could be hauling as much as 25 million tons a year, much of which will come out of Burlington's hide.

In sum, as North Western's experience indicates and as roads like Norfolk Southern and Santa Fe have demonstrated long since, transportation can be a pretty good business to be in. And for the first time in a long while, it's likely to get even better. ■

Acid rain can be good for you

What's good for heavy industry is generally good for the railroads. Oddly enough, what's bad for it can sometimes be good for the railroads as well. Take the matter of acid rain.

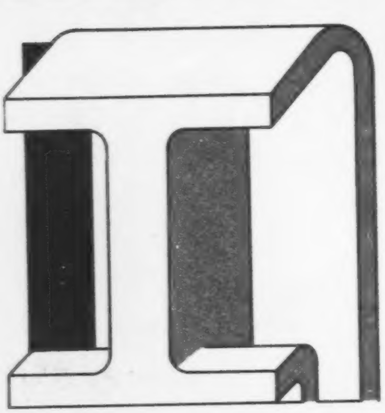
Acid rain is produced, most probably, by sulfur dioxide emissions mainly from utility power plants, industrial boilers and other stationary power plants in the industrial Midwest. Congress is now wrestling with how best to lessen the amount of it. The coal industry is of two minds. On the one hand are those who opt for power plant scrubbers, which would benefit high-sulfur-coal producers in Ohio and Illinois like Peabody and Consolidation. On the other are those preferring to set air quality standards and let companies meet those standards in any way they choose—including switching from high-sulfur to low-sulfur coal, which would benefit low-sulfur-coal producers in West Virginia and the Far West like Pittston, Westmoreland and Nerco.

The latter solution—cheaper, more economic and conceivably even more effective—ought to prevail. If it does, nobody stands to benefit more than the coal-carrying railroads—the Union Pacific and Burlington Northern in the West, CSX and Norfolk Southern in the East. According to Peabody Coal, at least 170 million tons of high-sulfur-coal production is up for grabs. Low-sulfur coal is generally farther from the point of consumption than high-sulfur coal is. Indeed, some of the utility plants that might switch to low-sulfur coal are in fact built at the mouths of the high-sulfur coal mines that support them. So the railroads would get a lot of business, particularly with coal from Colorado, Utah and Wyoming.

Since the heat content of western coal is only a half to two-thirds that of the high-sulfur eastern coal it would replace, the utilities would need substantially more tonnage to do the job. Small wonder, then, that western roads like the Burlington Northern and Union Pacific, both of which are also in the coal business, have jumped on the bandwagon to support legislation permitting free choice. The eastern carriers—CSX and especially Norfolk Southern, with customers on both sides of the argument—have preferred to remain neutral. After all, why alienate their high-sulfur coal mine customers prematurely?

But there's no question which side the eastern roads' bread is buttered on. According to an independent study made for the Alliance for Clean Energy, a joint coal producer/coal railroad group, the low-sulfur option would require 100 billion additional ton-miles of transportation from the west by 1995, of which 95% would be provided by railroads. And that's no mean increment. In 1982 the railroads' total traffic volume was less than 800 billion ton-miles.—J.C.

Despite improving prospects, the final shakeout is under way in this seriously troubled industry. For 1984 the word will be merger.



Steel

By Kevin McManus

"THIS INDUSTRY is going to have a better year in 1984," says Harry Holiday, chairman of Armco Inc. "All predictions are that tonnages are going to be up somewhat."

"It's conceivable that we could even operate at capacity in specific product lines," adds Thomas Graham, vice chairman of U.S. Steel.

It has been so long that it hardly seems possible, but, yes, recovery actually is at hand in the steel business. The first to feel it: producers of sheet steel for Detroit like National, Inland and LTV, although it can't yet be seen in the latest 12-month figures on the Forbes Yardsticks. National Steel, especially, has benefited, since its largest sheet mill is right in Detroit. Makers of steel for appliances and electrical machinery also have begun to see increased orders. Heavier products—structural shapes, rails and tubes—will revive as soon as there's a significant pickup in capital spending, already under way in some industries. That will help producers like U.S. Steel, Armco and Bethlehem. By the second half of this year all seven of the country's major steelmakers will probably be in the black. U.S. Steel is even predicting four quarters of operating profits, based on a modest uptrend in capital spending in 1984.

The trouble is, the industry has been down for so long that it will take at least a decade of vastly improved prospects to put it back on its feet. What small profit the big steel producers do make in 1984—perhaps

Taking it to the courts

Antidumping suits are always messy, but when they involve Third World exporters hard pressed to pay their bank loans, they are doubly difficult. If the U.S. government comes to the aid of the beleaguered American steel industry by imposing import quotas, it risks pushing those Third World countries closer toward default.

Consider Bethlehem Steel's threatened suit, which would seek to restrict the total amount of steel foreigners can legally export to the U.S. In 1983 steel imports accounted for some 22% of U.S. consumption, or about 20 million tons, out of the roughly 85 million tons sold in the U.S. Bethlehem and other big steel companies backing the suit would like to see that import tonnage cut back to about 15%. That, of course, might trigger reprisals from Japan and Europe, which are already limiting exports here.

On top of that, the International Trade Commission, a government agency that deals with such matters, still has to wrestle with the Gilmore Steel case. Gilmore, a small Portland, Ore. plate producer, has sued exporters from West Germany, Belgium and Korea for dumping plate products in its West Coast market. The case, which so far has advanced in Gilmore's favor, could be as sticky as the U.S. Steel and Bethlehem cases, because a ruling in Gilmore's favor could wreck the 1982 accord between the EEC and U.S. steel producers. And that could cause the same headaches that the U.S. government would seek to avoid by throwing out the Bethlehem and U.S. Steel cases.

Thomas Boklund, president of Gilmore, believes the EEC and Japanese accords would not be ruined by a ruling in Gilmore's favor. "I think there's too much to be lost by the Europeans," he says, were they to scotch the existing arrangement. "Our complaint is on one product only, whereas the arrangement covers many products."

Boklund points out that the Gilmore suit was do-or-die for the little company, which was operating at only about 30% of capacity for most of 1983. "But in order to compete and stay in the market," he says, "this is an avenue we have to take, unfortunately."

That sentiment pretty much holds true for the big producers in their legal actions against foreigners. Like Gilmore, they feel they are being driven out of business by overseas competitors, most of whom are nationally owned. If antidumping suits and steel quotas threaten to disrupt already shaky financial and political connections between the U.S. and its trade partners, well, that's Washington's problem. If the U.S. wants to have a viable steel industry, then, for the moment at least, the foreigners had better be kept out or, at least, largely cut off.

Are the rulemakers in Washington receptive to this reasoning? "I think they understand the problem," says Harry Holiday, chairman of Armco. "But, most probably, we still have to file suits in order to bring some action."—K.M.

$1.5 billion, according to Oppenheimer Vice President John C. Tumazos—will certainly not be enough to finance the modernizing effort that steelmen say is necessary to make them globally competitive. Nor will it be enough to attract economic financing on Wall Street. About all one can say is that after two years of staggering losses and chopping of plant and personnel, any profit at all is a step in the right direction.

None of this applies, of course, to the recycling arm of the industry, the so-called minimill operators such as Chaparral and Nucor. Those companies have stayed quite healthy because of lower labor costs (most minis are not unionized); lower transportation costs (because they tend to be situated close to their markets); and, most importantly, far lower capital spending requirements (they melt inexpensive scrap in efficient electric-arc furnaces, for the most part).

The central issue is what's happening to the Big Seven steel producers that make raw steel: U.S. Steel, Inland, LTV, Republic, Armco, National and Bethlehem. To build a brand-new supermill that would be competitive with the best Japanese mills would cost about $2,000 per ton of capacity (vs. $250 to $750 per ton for electric-arc minis, depending on the product), estimates Richard Smith, vice chairman of Bethlehem. "And the current return on the steel business is such that the investment couldn't be justified." It certainly isn't justified, and has not been for years. Look at the big steelmakers' return on capital over the past five years: U.S. Steel, 3.8%; Armco, 0.1%; Republic, 0.0%, and so on.

Because the industry's costs are simply not competitive internationally, even with more demand, the steelmakers face a host of other problems:

- Imported tonnage, which accounted for 22% of total steel sales in 1982. While most of it comes from Japan and Europe, a growing amount also comes from Third World producers like Brazil, South Korea, Mexico, Taiwan—even Trinidad and Tobago. After European and Japanese producers agreed in 1982 to limit steel exports to the U.S., developing countries rushed to take up the slack. The problem is worsening. Troubled Wheeling-Pittsburgh threatens to import semifinished steel from Brazil, as U.S. Steel wants to do with British Steel. No surprise, then, that Bethlehem Steel planned a major trade suit before the International Trade Commission, seeking to establish stiff U.S. import quotas *(see box, p. 154).*
- Excess capacity. Despite wholesale downsizing by the industry, domestic steelmakers still possess the plant, equipment and manpower to

Steel

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Worthington Inds	1	27.6%	17.2%	0.6	2	17.9%	11.6%	4.5%	1	25.0%	1	20.7%
Nucor	2	23.9	10.5	0.2	1	18.6	9.4	4.9	2	20.1	2	19.6
Northwest Industries	3	21.3	1.7	0.5	4	12.5	2.3	0.6	9	9.4	3	13.8
Carpenter Technology	4	15.3	6.6	0.2	3	14.0	5.2	4.6	6	10.2	5	8.4
Commercial Metals	5	14.5	7.1	0.2	7	11.6	6.6	0.9	3	14.6	4	8.8
Earle M Jorgensen	6	13.8	3.5	0.2	6	12.1	3.7	2.6	14	5.8	8	5.0
Central Steel & Wire	7	12.5	10.3	0.0	5	12.3	10.1	3.4	17	4.5	7	6.2
LTV	8	9.8†	def	1.3	15	5.0†	def	def	5	11.9‡	6	7.1‡
Colt Industries	9	9.6	17.6	0.5	8	7.5	14.6	5.6	11	7.1	10	–9.9
Athlone Industries	10	8.2	def	1.3	9	6.9	1.4	def	26	2.1	11	–11.4
Interlake	11	7.2	3.6	0.4	10	6.2	4.0	1.5	15	5.3	9	–4.8
Crane	12	7.1	def	0.6	13	5.5	def	def	22	3.7	13	–13.1
Copperweld	13	6.6	def	0.5	11	5.7	def	def	13	6.0	12	–11.9
Northwestern Steel	14	5.1	def	0.0	14	5.2	def	def	21	4.0	14	–14.1
Cyclops	15	3.2	def	0.4	16	3.8	def	def	10	8.7	15	–15.0
Hanna Mining	16	1.8	def	0.2	19	2.1	def	def	28	–4.2	17	–31.1
Lukens	17	1.6	def	0.6	18	3.0	def	def	12	6.2	16	–29.0
National-Standard	18	1.3	def	0.2	20	1.6	def	def	23	3.2	19	–34.0
United States Steel	19	1.1	def	1.0	16	3.8	def	def	7	10.1	18	–33.6
Inland Steel	20	def	def	0.6	21	1.1	def	def	16	4.9	20	P–D
Republic Steel	21	def	def	0.5	24	0.0	def	def	18	4.3	20	P–D
Armco	22	def	def	0.4	23	0.1	def	def	8	9.5	20	P–D
Kaiser Steel	23	def	def	0.9	25	def	0.8	def	19	4.1	20	P–D
Wheeling-Pitts Steel	24	def	def	1.1	22	1.1	def	def	27	0.1	20	P–D
National Intergroup	25	def	def	0.7	26	def	def	def	20	4.0	20	P–D
Keystone Consolidated	26	def	def	0.6	27	def	def	def	25	2.6	20	P–D
NVF	27	def	def	3.2	12	5.6	def	def	4	12.2	20	P–D
Bethlehem Steel	28	def	def	1.0	28	def	def	def	24	2.7	20	P–D
Industry medians		4.2	def	0.5		5.1	def	def		5.6		–14.6
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
†Four-year average. ‡Four-year growth. P–D: profit to deficit. def: deficit.

produce far more pipe, plate, sheet, etc., than can possibly be consumed domestically or sold overseas. Total U.S. industry capacity is something like 150 million tons a year—20 million too much, by some estimates. So the downsizing continues. Closed in October: 75% of Bethlehem's 81-year-old, 1,696-acre Lackawanna, N.Y. plant, which has been darkening in stages since 1970. To be closed this month is Armco's 42-year-old Houston works, which once turned out plate for Texas oilfield drilling rigs.

- Outmoded plant. Most of the U.S. mills that remain open after the shutdowns will need modernizing. The newest U.S. mill is Bethlehem's Burns Harbor, Ind. works, a 20-year-old facility that is only medium-size by international standards.

Brazilian steel wire being unloaded in Houston
Whose problem—domestic steelmakers' or Washington's?

- Costly labor. American steelworkers are still paid more than their foreign counterparts, by a margin of 50% to 100%. Labor cost accounts for about 40% of the selling price of U.S.-made steel, vs. about 18% for that made in Japan.

All of which is not to say that domestic steelmakers don't deserve a lot of credit for facing up to their troubles. "The companies have done everything in their power to adapt," says Tumazos. But one measure of how much remains to be done is the fact that less than 30% of American steel is continuously cast, vs. about 90% of Japanese steel. The continuous casting process turns out a single strand of molten metal for simultaneous rolling, thereby eliminating ingot casting, reheating and trimming. Continuous casters are running now in Bethlehem's Burns Harbor facilities and will come on line at Sparrows Point, Md. in 1986. U.S. Steel, which has casters installed at Fairfield, Ala., Lorain, Ohio and three other facilities, says it will be casting 30% of its steel this way by 1986.

U.S. Steel's efforts to make a deal to import 1 million tons of low-cost slab annually from British Steel's 20-year-old Ravenscraig mill in Scotland (and finish the slabs at its Fairless works) is tacit recognition of the fact that this is too little, too late.

That venture is opposed by unions in both countries and could be blocked by either U.S. or British regulators. But even if the U.S. Steel deal should fall through, some slab importation arrangements are likely to be worked out, perhaps with less fanfare, with countries active in the slab export business like Brazil, Sweden, Canada and Korea.

Other U.S. steel producers are attempting somewhat less defeatist solutions. Perhaps the most notable example is the proposed merger of LTV and Republic, which would create the second-largest steel firm in the U.S. and permit both integration and downsizing. If Washington okays that deal—most steelmen believe it will—others may follow. "I think we'll see a merger or two beyond LTV-Republic, and probably sooner rather than later," says Ralph Thompson, a Commerce Department steel analyst. "Wheeling-Pittsburgh is clearly a candidate for something."

Republic implicitly is agreeing with the view of U.S. Steel Chairman David Roderick, who believes that by the end of this decade only three to five fully integrated steel companies will exist, producing 60% to 65% of the nation's steel. Thomas Graham, Big Steel's second-in-command, elaborates: "I expect we'll see merger activity and we'll see financial failures. We'll see a reshaped industry that is created by a survival mode like that." ■

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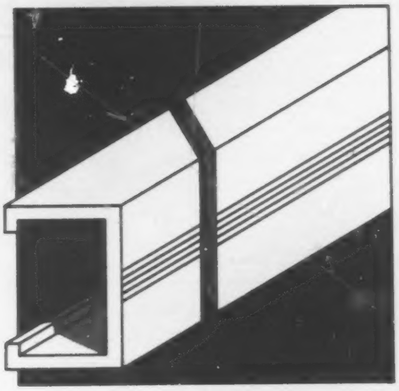
Fundamental changes in the world's economy are causing the recovery to pass by most of this most basic of basic industries.



Nonferrous metals

By James Cook

SOMETIMES MANAGEMENT isn't everything. The $30 billion U.S. nonferrous metals industry is being shaken to its roots these days by the steadily declining importance of metals in the world's total economic activity and by the increasing role that governments are coming to play in the world's base metals business.

The effect of those two forces on metal prices has been devastating. In 1983 copper shot up from 69 to 83 cents a pound, and then dropped back to 69 again, the lowest level in real terms since the Thirties. Lead hovered around 20 cents a pound and rose to 26 cents in the fall, vs. over 60 cents in 1979. Molybdenum at $4 and nickel at $2 were something like 50% below their 1980 highs, with no upturn in sight. Silver, up from $4.88 to nearly $15 an ounce in early 1983, was back to $9 by late fall. And gold had dropped from a 1980 high of $851 an ounce to $400 by late fall.

Thanks to auto and housing demand, only aluminum and zinc were out of the woods, with zinc at 49 cents a pound, just a shade below its alltime high, and aluminum at a heavily discounted 81, the highest producer-price level in history.

Why was the nonferrous metals business in general being passed over in the recovery? At least in part because of fundamental changes that are taking place in the economy. For at least the last 30 years the U.S. GNP has become increasingly less materials-intensive. Between 1950 and 1981 the U.S. real GNP tripled, but steel consumption rose less than 50%, copper less than 30%, lead not at all and zinc actually declined. Only aluminum—the industry's high-volume growth business—succeeded in outpacing the GNP by a wide margin. And now even aluminum is losing ground as its customers work to get more from less, reducing the aluminum content of beverage cans, for example, by a prospective 17% over the next two years.

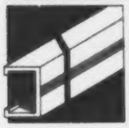
The energy crisis speeded up these changes, devastating one traditional

Nonferrous metals

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Cabot	1	21.3%	9.9%	0.3	2	14.0%	7.5%	4.1%	1	23.3%	1	29.3%
Engelhard	2	19.5	17.0	0.2	1	17.2	13.8	3.2	2	19.3‡	4	14.2‡
Handy & Harman	3	16.9	6.8	0.6	3	11.9	5.9	1.6	5	9.6	6	6.8
Newmont Mining	4	14.6	4.9	0.1	4	9.9	3.7	9.8	10	6.8	2	17.2
Alcan Aluminium	5	13.5	0.7	0.5	5	9.5	1.9	0.4	4	11.3	5	12.8
Alcoa	6	10.6	def	0.5	7	8.2	1.8	0.0	6	9.6	7	6.4
ASARCO	7	9.4	2.2	0.5	6	8.4	3.7	2.7	9	6.8	3	15.1
Kaiser Alum & Chem	8	6.0	def	0.6	9	4.9	def	def	7	8.9	9	–10.8
Reynolds Metals	9	5.3	def	0.6	10	4.1	def	def	8	8.7	8	–9.6
AMAX	10	4.4	def	0.6	8	5.5	def	def	3	15.8	11	–14.4
Phelps Dodge	11	2.9	def	0.6	11	def	2.9	def	11	5.2	10	–11.3
Inco	12	def	def	0.6	12	def	def	def	13	0.6	12	P–D
Revere Copper	13	def	def	6.2	13	def	def	def	12	4.9	12	P–D
Industry medians		9.4	def	0.6		8.2	1.8	0.4		8.9		6.4
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38
‡Four-year growth. P–D: profit to deficit. def: deficit.



metals market after another virtually overnight. Downsize the energy-sensitive segments of the economy, including its automotive component, as the U.S. set about to do in the Seventies, and you inevitably also downsize all the industries that depend on it. The metals-producing industries were affected most of all, except aluminum, whose light weight gave it an edge over most other materials.

Add to basic changes like this the worst manufacturing recession in a half-century, and you get the devastation so vividly reflected in this year's Forbes nonferrous metals industry Yardsticks: Revere Copper in bankruptcy, no fewer than 7 out of 13 companies in the red. The only companies able to keep their heads above water were Alcan, with the world's lowest-cost aluminum operations; Cabot, with a countervailing stake in oil, gas and chemicals; and 4 companies with a commitment in some way to precious metals, either as miners (Asarco, Newmont) or as processors (Engelhard, Handy & Harman).

The more specialized metals—nickel and molybdenum—were no better off than the base metals. Gone are the days when steel was the hallmark of industrial potency and specialized steels the big growth area, when the metals used primarily in making steel alloys that were harder, lighter or less rust-prone did impressively well, thereby enriching the world's two leading producers, Inco and Amax, who compounded their advantage by exploiting a near-monopoly on the world's economic reserves of their metals. Today both industries have more capacity available than they are likely to absorb in a decade, while the steel industry seems to be contracting worldwide.

Faced with fast-shrinking markets, Amax sought to offset its inordinate dependence on molybdenum by diversifying all over the lot. Trouble was, it ventured into adjacent businesses, often materials that proved to be every bit as vulnerable: nickel, copper, lead, zinc, fertilizers. True, it also went into aluminum, coal, iron ore, oil and gas, which were not as vulnerable as molybdenum. But Amax was not sufficiently contracyclical to offset the others. Inco's by-product copper, recovered in the process of mining nickel, made it one of the world's largest copper producers. But this was no protection. Copper was nearly as hard hit as nickel, and Inco's attempt to diversify with Electric Storage Battery was a $254 million disaster.

But the shifting patterns in the world's consumption of materials are only the half of it. The other half is increasingly widespread government ownership of the metals industries, a stake so large in steel, copper and aluminum that the balance of economic power is rapidly shifting away from the private sector.

It's a phenomenon scarcely limited to metals, of course. You could say the same of petroleum and petrochemicals, or airlines or telecommunications. But nowhere has the change been more dramatic and more disastrous than in copper. Over the past decade or so, all of the key Third World copper producers—Chile, Zambia and Zaire—have nationalized their copper production. Today something like 55% of the world's output comes from government corporations, vs. 33% a decade ago.

These new Copper Kings, as FORBES called such government enterprises a decade ago, are aloof from the profit disciplines that in the past have shaped the industry's development. What governs their conduct these days are such concerns as employment and foreign exchange and the

Games governments play

When a private company can't meet its financial obligations, it generally goes bankrupt. When a Third World government enterprise finds itself in the same position? It goes to the International Monetary Fund.

Don't laugh. That's just what's facing the copper industry these days—bankruptcies for the private companies, IMF backing for their government competitors.

In 1982, for instance, when copper consumption fell sharply worldwide, U.S. producers cut production back from 1.5 to 1.1 million tons in an effort to bring supply and demand into balance. Chile, however, increased production from 1 million to 1.2 million tons. It needed to keep its copper miners working, and it needed the foreign exchange copper would bring to service its $20 billion in external debt.

So who cared if copper prices went to hell in a handbasket? There was always the IMF to turn to. Its compensatory financing facility provides loans as balance of payments supplements when there is a temporary shortfall in a developing country's export revenues.

Chile, with its low costs, may have made money selling copper at 69 cents a pound, but its high level of production helped depress the price of copper. At such price levels, high-cost producers in Zambia, Zaire, Peru and Papua New Guinea couldn't make money any more than the North American producers could, though they kept on producing anyway. Export earnings for these countries dropped sharply, and the IMF had to come up with a compensatory $586 million for these countries as well. "It doesn't make any sense," says Asarco's Chairman Ralph Hennebach. "The margin between shortage and surplus is so small that if these countries had cut production, copper prices would have risen so much higher that they'd have made more on lower production than they did by producing full out."

Small wonder, then, that the U.S. copper industry is in such chaos these days. U.S. consumption has begun picking up, but U.S. producers aren't supplying the upswing. Instead, low-priced Chilean copper, which normally moves to Europe, is flooding into the U.S.

All things considered, of course, that isn't all bad. In the last economic recovery, copper soared to well over $1 a pound, whereas today, 13 months into the current recovery, copper remains at 69 cents a pound, near its recessionary low. So you could say that U.S. consumers are, in effect, getting an indirect price subsidy both from the Third World producers and from the IMF.

But that subsidy comes at a price, and that price may be the devastation of major parts of the U.S. copper industry. When governments set the economic terms of any industry, over the long haul only governments can reasonably be expected to play the game. So if the current situation continues, it's likely the U.S. government will have to meet fire with fire: become involved in the copper business itself. In the end, if that happens, the low price of copper may not be such a bargain after all.—J.C.

demands of the international lending agencies *(see box, p. 162).* Never mind whether demand is high or low, whether prices are low or high, these government producers keep churning out metal, maintaining employment and foreign exchange. In the process, of course, they depress metals prices and export unemployment.

So the industry's private sector, situated primarily in North America, has attempted to bring supply and demand into balance by curtailing production. In the first half of 1983, for example, U.S. producers cut their output by 16%, to no avail. With the Third World producers running full out, total production worldwide dropped a mere 6%. Result: The private copper industry in the U.S. and Canada is being driven to the wall, not by the economics of production but by the politics of nationalization.

The results are obvious: Most of the major U.S. producers have already been absorbed by the oil or mining conglomerates. The few that are still independent have been forced to close down, temporarily, one mine after another, so that today the U.S.' most efficient copper producer, Phelps Dodge, had no choice but to endure a bitter strike and is being forced to liquidate major chunks of its other assets to stay solvent. "It's our intention," PD's able boss, George Munroe, demurs, "to reinvest our capital in areas where it can be more productive"—small mines, that is, and precious metals.

Asarco, one of the few major independent copper producers still around, would probably have been in similar difficulty except for the fact that it is also the U.S.' largest producer of silver. For part of 1983, silver was booming. "You don't manage for profit," Asarco President Richard de J. Osborne explains. "You manage for cash flow to meet your obligations."

Copper is not alone. Alcoa's new chairman, Charles W. Parry, complains that the private aluminum industry has also been hurt by continuing high levels of production from government-owned smelters in places like Venezuela and Bahrain. By 1985, in fact, Alcoa predicts government smelters will account for 50% of the industry's output, vs. 15% in 1960. Meanwhile, to an even greater extent than the rest of the industry, U.S. producers have had trouble coping with the rising costs of electric power (perhaps a quarter of the final cost of aluminum). That has already rendered more than 15% of U.S. capacity obsolete. U.S. energy costs now average an estimated 20 cents per pound, vs. 13 cents overseas. While U.S. producers—Alcoa most of all—have reduced the amount of power needed to produce a pound of aluminum, the U.S. is playing a losing game.

Chile's massive Chuquicamata mine

Private firms or government games?

Though most of its markets have begun to mature, the aluminum industry still thinks of itself as a dynamic growth business. So the three big U.S. producers are moving to Australia and Brazil, where inside of 10 or 15 years aluminum will probably cost 20% less to produce than in the U.S. So is Alcan, which, thanks to its low-cost hydroelectric power base in Canada, has steadily gained ground on its competitors all during the Seventies and very probably will continue to do so in the rest of the Eighties. Kaiser, meanwhile, despite its failures in diversifying in the past, hopes to develop a counterbalancing half of its revenues in other areas; Reynolds aims at becoming more of a fabricator.

The pattern is clear: America's base-metals producers are steadily losing ground to their foreign and primarily government-owned competition. As a result, the U.S. will almost certainly come to depend more and more on imports for its basic materials. According to Dean Witter First Vice President J. Clarence Morrison, unless the trend is reversed, by 1990 the U.S. will probably be importing 30% of its copper requirements, vs. 15% currently; 36% of its aluminum, vs. 20%; 75% of its zinc, vs. 55%; 60% of its nickel, vs. 45%.

Still, there are some real winners in the business, notably Handy & Harman, Engelhard, Cabot and Newmont Mining. But neither Handy & Harman, Engelhard nor Cabot is in mining. Handy & Harman and Engelhard are precious metals refiners and fabricators, with successful diversifications into specialty metals products and catalysts, respectively, while Cabot more than offsets its specialty metals operation with petroleum, petrochemicals and carbon black.

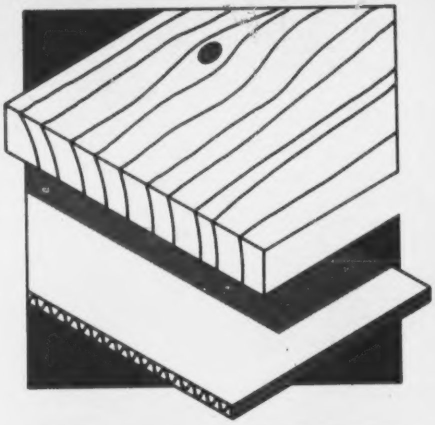
As a mining enterprise, the group's star performer is Newmont Mining. Though it ranks as one of the world's largest copper producers and even increased its stake a year ago by picking up Cities Service' copper properties, Newmont makes its money these days from some strikingly successful ventures into coal, oil and gas and, most spectacularly, gold. Newmont's Carlin mine was a winner when gold was at $35 an ounce. It's a real gold mine with gold at $400 an ounce, never mind at over $850. Newmont's diversification is as varied and unstable as that of anyone else in the mining business, but, given the present needs of the market, it has almost alone been able to meld those instabilities into a profitable combination. No wonder Britain's Consolidated Gold Fields may increase its Newmont investment from 26% to 33%.

What's ahead? Nobody has much doubt that aluminum should score a dazzling comeback in 1984, so much so that some analysts are even predicting a shortage. Ditto zinc and possibly lead, both of which hit a new floor in demand during the recession. Silver and gold still boom and bust on their reputation as storehouses of value. As they are currently out of favor, prices and profits hinge on the level of industrial demand, which is finally beginning to recover from the low levels of 1982. Nickel's and molybdenum's fortunes depend partly on steel's. They had better be better in 1984 than they were in 1983 or the industries may not survive.

Nobody really knows what's ahead for copper. Under normal circumstances rising demand from housing and automotive markets ought to have sent copper prices and profits soaring long before now. But it hasn't. Coppermen now wait for an overdue upsurge in capital spending to do the job. The worse things get, the more mines close, the sharper and more explosive the upswing ought to be. As Asarco's former Chairman Charles Barber points out, "History teaches that a small shortage creates a disproportionate increase in price, and, conversely, a modest surplus creates a disproportionate decrease in price."

So near, and yet so far. ■

Government deficits are likely to depress housing starts and the wood and lumber companies' profits, but prosperity for the papermakers is virtually in the bag.



Forest products

By Lawrence Minard

If only Washington doesn't screw things up.... So ran the thinking of forest products company chief executives as 1983 ended. Housing starts, up 70% last year, were back to normal. Wood products, which typically lead the industry out of recession, had already enjoyed a dramatic turnaround. Industrial production, key to such depressed paper products as linerboard, was beginning to pick up. In short, the industry was finally back on course.

Nevertheless, Potlatch Corp. Chairman Richard Madden was glum when he addressed security analysts in October, despite third-quarter results of $10.8 million, which were better than twice 1982's third quarter. Potlatch's immediate prospects, Madden conceded, were "encouraging." But not so longer-term prospects. "Despite all the rhetoric from Washington," he warned, "excessive federal spending and huge budget deficits over the next several years ... [are] fundamental roadblocks that threaten the current recovery and dampen our enthusiasm about the longer term."

Construction workers nailing Louisiana-Pacific's waferboard
New competition is the sincerest form of flattery.

The basis for Madden's fears is obvious. Huge deficits mean upward pressure on interest and mortgage rates, and that's death to housing starts—and the wood companies' profits. The industry hasn't seen a good housing year since 1978, when starts were 2.1 million. By 1982 they had plunged to just over 1 million, the worst level since the 1930s. The Yardsticks show the damage. Potlatch, Georgia-Pacific, Louisiana-Pacific, Boise Cascade, Southwest Forest, Weyerhaeuser—in every case the companies' five-year average equity had trouble keeping even with inflation or fell well short of it. Because 1982's fourth quarter was one of the worst on record, returns for the latest 12 months still lag the five-year averages by quite a margin despite the upturn in housing. Clouding the outlook for some West Coast companies, Southwest Forest, for example, are government timber-cutting contracts signed a few years ago at very high—and today very uneconomic—prices. Should the government force the companies to honor the contracts, wood products' earnings will be adversely affected.

What worries the forest products industry is how vulnerable demand for housing is to interest rates. When interest rates fell last spring, housing starts picked up smartly, to an annual rate of 1.9 million in August. But then interest rates bounced up again, which immediately knocked starts down to an annualized 1.6 million by November and around 1.7 million for the full year.

The problem, of course, is one of affordability. The "affordability ratio" is that portion of a typical American family's after-tax income devoted to financing a home. The ratio was 22% in 1977, when housing starts stood at 1.9 million units. Last year the ratio was over 30%. Economists at the Federal National Mortgage Association figure the ratio must drop to 25% to sustain housing starts at 1.75 million units. But a 25% ratio, they say, requires conventional mortgages at no more than 11.5%, vs. 14% today.

Even if housing stays at 1.7 million units this year, forest products companies won't be on easy street. Houses have been downsized, and an increasing number of buyers are switching to less expensive multiple-family dwellings. Both trends mean less wood sold. That means this will be the year of the low cost producer. Weyerhaeuser, for example, unlike most of its competitors, owns 6 million acres of very low cost timber and supplies all its lumber requirements. Even modest growth in demand for its lumber products will flow more or less directly to the bottom line. What makes Weyerhaeuser doubly appealing is that it has spent around $2.5 billion over the last five years mostly on pulp, paper and container making capacity. These lines now account for around 40% of Weyerhaeuser's $4.8 billion sales and position the company well for the surge in papermakers' profits that should follow the overall economic upturn likely to continue this year.

Timber-poor Louisiana-Pacific in Portland, Ore. has figured out a novel way to cash in on the upturn in downsized housing. LP Chairman Harry Merlo has invested heavily in waferboard, a new plywood substitute. Waferboard is made from peels of inexpensive trees like lodgepole pine and aspen. According to a recent study by Bowen Smith, Salomon Brothers' ranking forest products analyst, waferboard costs up to 30% less to produce than southern pine plywood. Yet it can be substituted for plywood in virtually all applications, indoors and out. Although it has less than 5% of plywood's sales so far, the growth potential of waferboard is impressive.

The surest sign of that is that plywood producer Georgia-Pacific is moving strongly into waferboard and a similar substitute, oriented stand board (OSB). GP, which produces 19% of America's plywood and sells 30% of it, now has two waferboard and OSB mills in operation and has announced it will add three more by 1985. That would give GP around 20% of the country's plywood substitutes capacity by 1985, against Louisiana-Pacific's 36% share then.

At the upper end of the industry Yardstick rankings last year were the wealthier papermakers. Once again Fort Howard of Green Bay, Wis. and James River of Va. stood head and shoulders above the pack. Fort Howard has developed an expertise at turning fiber waste products into valuable commercial tissues. Because fiber wastes are far cheaper than the virgin pulp most of its competitors use, Fort Howard has become the lowest-cost producer in the highly competitive tissues market.

James River, too, is the low-cost producer in several of its product lines. The company has avoided huge capital spending for new plants because it has been able to buy underused plants from less specialized papermakers. Moreover, James River is highly integrated: It converts trees to pulp, pulp to paper and paper into high-value-added paper cups, automotive filters, disposable towels and other products *(see box, p. 172)*.

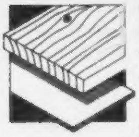
The cyclical paper industry will enjoy a fine year in 1984. Paper depends not on mortgage rates and housing starts but on overall business and consumer spending patterns. At the cyclical peaks, when everyone is running at full capacity, even a high-cost, widely diversified company like International Paper can earn over 25% on

Forest products

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
James River Corp Va	1	26.7%	25.0%	1.0	2	16.7%	17.5%	3.9%	1	56.2%	1	30.0%
Fort Howard Paper	2	24.0	22.7	0.1	1	18.9	18.3	16.0	2	15.8	2	15.7
Consolidated Papers	3	18.4	14.0	0.1	3	15.7	12.0	8.6	4	11.7	3	12.9
Kimberly-Clark	4	17.9	12.0	0.2	4	13.9	9.5	5.3	7	11.2	4	12.7
Union Camp	5	15.4	10.7	0.3	5	10.9	7.0	7.0	11	9.5	8	5.7
Federal Paper Board	6	13.2	4.3	1.4	11	7.8	4.3	1.3	21	6.1	10	4.6
Gt Northern Nekoosa	7	13.0	8.7	0.4	6	9.3	6.2	4.9	5	11.4	6	6.6
Westvaco	8	12.7	8.2	0.3	8	9.0	6.4	4.2	14	8.6	7	5.9
International Paper	9	12.6	5.8	0.3	7	9.2	5.1	5.0	24	5.5	9	4.9
Hammermill Paper	10	10.4	4.4	0.6	16	6.8	3.1	1.4	3	13.2	11	4.3
Scott Paper	11	10.2	6.2	0.3	10	7.8	5.2	4.0	10	9.6	5	6.8
Willamette Inds	12	9.9	5.5	0.9	9	8.1	4.7	2.2	8	11.1	16	–4.2
Weyerhaeuser	13	9.8	3.4	0.4	12	7.6	3.7	2.7	16	8.4	14	–3.1
SCM	14	9.2	3.0	0.5	14	7.2	3.4	0.9	19	6.3	12	3.8
Potlatch	15	8.9	5.2	0.5	18	6.6	4.2	4.2	19	6.3	15	–4.2
Georgia-Pacific	16	8.5	2.0	0.6	21	5.9	2.4	0.7	6	11.4	19	–6.3
St Regis	17	8.4	def	0.6	19	6.4	0.5	def	15	8.5	17	–4.3
Boise Cascade	18	8.4	3.8	0.6	15	6.9	4.2	1.7	12	9.4	13	0.2
Champion Intl	19	8.2	3.5	0.5	20	6.0	3.4	1.7	22	6.0	20	–6.5
Mead	19	8.2	def	1.0	17	6.7	1.3	def	13	9.2	21	–9.2
Longview Fibre	21	7.4	4.6	0.7	13	7.6	4.6	2.6	17	7.6	22	–10.6
Louisiana-Pacific	22	6.5	2.7	0.2	23	4.6	2.1	1.9	9	10.8	18	–5.2
Crown Zellerbach	23	3.9	2.8	0.6	24	4.1	4.1	1.8	18	7.1	23	–18.8
Southwest Forest Inds	24	1.7	def	1.1	22	5.5	0.5	def	23	5.7	24	–26.4
Industry medians		**9.9**	**4.5**	**0.5**		**7.6**	**4.3**	**2.4**		**9.3**		**2.0**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
def: deficit.



equity, as IP did in 1979, the industry's last boom year. Then the paper companies spend heavily on new capacity. The operating leverage that boosts earnings in the boom years comes back to clobber them as the economy dips. With the economy turning up again, operating leverage is beginning to work its old magic.

Look at badly hit St. Regis, which lost $49 million in 1982's fourth quarter, thanks to a writeoff on businesses being disposed of. St. Regis produces around 760,000 tons annually of linerboard, the brown paper linings on boxes. With everything from white goods to kids' toys moving off the shelves in 1983, as banner Christmas sales loomed, demand for linerboard picked up. So did its prices: up from around $220 a ton in 1982 to nearly $300 a ton late in 1983; $320 a ton is anticipated by early 1984.

"So you're looking at a $76 million swing for us on linerboard alone," says St. Regis Chairman William Haselton. Haselton predicts St. Regis earnings of $4 a share in 1984, vs. 1982's $1.29 a share. That's leverage.

Another product likely to do well in the coming years is uncoated white printing paper, which spews forth from computers and copiers. Union Camp Chairman Peter McLaughlin has wisely shunned broad diversification and concentrated his spending primarily on uncoated white papers and linerboard. He has torn a page from Fort Howard's book: He has developed a specialty chemical business that converts cheap waste chemicals into high-value-added resins. From nothing, Union Camp's chemicals division has grown to $260 million (sales). Says McLaughlin: "Frankly, I see nothing in any of our businesses that worries me this year."

The world's largest supplier of office copy paper is Great Northern Nekoosa. But Great Northern was hit by a 44-day strike last summer that cost the company nearly $11 million. The strike is over, as is most of the spending on a $560 million pulp mill in Mississippi, scheduled to open in September. Half of the new plant's output will be exported, mainly to Europe, a clear sign that the Scandinavians are running short on trees and are no longer the fierce competitors in the international pulp trade they once were. Of course, the paper industry's oldest enemy is the greed of its own executives in the up cycles. So it's not too soon to ask whether there will be another binge of overbuilding as profits rebound. Union Camp's McLaughlin thinks not, if only because new plants are so costly. He cites a plant he built in the 1960s, which cost $60 million. In 1977 he built an identical plant. Cost: $250 million. Today, he says, the plant would cost over $500 million to build, if Union Camp could obtain all the required permits. "That kind of capital simply is not available to very many companies," says McLaughlin.

So the industry can probably count on another year or two of prosperity, unless those $200 billion-plus government deficits throw a wrench into the recovery. Says Union Camp's McLaughlin, "We keep hoping the politicians will do something." ■

The best little paper company in America

From the Yardsticks, James River Corp. of Virginia looks more like a hot computer maker or defense contractor than a paper company. Founded 15 years ago by chemical engineer Brenton Halsey, now 56, and mechanical engineer Robert Williams, 53, James River's sales have grown at 56.2% annually over the last five years, to $2.4 billion today. Profits have compounded at 30%. Through boom and bust the company has earned, on average, 26% on shareholders' equity—better than twice the typical paper company's average.

It's been achieved by acquisitions, but this is no hall of mirrors from the Sixties. Halsey and Williams built their company by buying up numerous small mills that had become unsuited to the great economies of scale of the commodity grades but were ideally suited to the much smaller markets of specialty grades. In recent years, they have expanded into industrial and consumer commodity grades, but only in those lines where value-added is highest. The company now produces papers used in industrial items like sandpaper backing and automotive filters and consumer items like paper towels, sanitary tissues and paper cups. "We have no desire," says Halsey, "to become a cross section of the paper industry." The widely diversified giants that owned these small mills could have switched them over to specialty grades, too, of course, but either didn't find it worth their while to bother or were deterred by the need for a very specialized sales force.

So Halsey and Williams have been able to buy assets quite cheaply. Halsey says he usually pays book value or less and generally pays with combinations of James River stock (which trades at better than twice book) and cash borrowed against the acquired assets. In this sense, Halsey and Williams are leveraged buyout artists working from behind a corporate facade.

Once they buy an asset, Halsey and Williams use its cash flow to repay debt, improve productivity by modernizing plant and equipment and upgrade product lines. It works: James River's average selling price last year was $1,600 a ton, vs. the industry average of $500 to $600 a ton.

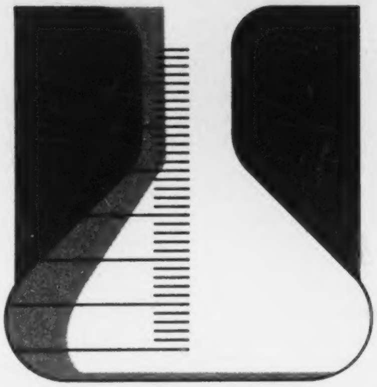
How long can James River keep buying ever larger ever more frequently? In 1980 it bought Gulf & Western's $500 million (sales) Brown Co. for its big pulp mill in New Hampshire. In 1982 it paid $450 million for American Can's $1.1 billion (sales) Dixie-Northern operations, makers of the Dixie cup; Dixie-Northern gave James River another large pulp mill in Alabama. Last year the duo paid Sir James Goldsmith $170 million for Diamond International's pulp and paper assets. The American Can and Diamond International acquisitions added around $1.3 billion in consumer paper products to balance out the industrial side.

Now that is the corporate fast track. But Halsey says he can keep it up. He promises to compound James River profits at a minimum 15% annually, after inflation, for the next five years. To do so James River is spending $1 billion during 1983-87, all internally generated. Around $350 million will go for basic upkeep. The other $650 million is earmarked for plant refurbishment and expansion. This, says Williams, will double James River's operating margin, from 3% in early 1983 to 6% by 1987, and by 1987 will triple the company's profits.

Says Williams of the implied 24.5% annual earnings growth rate: "We think that's very conservative."

Well, it is a $40 billion industry, so there's still lots of room to maneuver.—L.M.

The recovery is under way in the chemical industry. Now if producers can just keep those expansion plans on the shelf.



Chemicals

By Thomas Jaffe

THE PRICE RISES were beginning to stick in the chemical industry last year: in ammonia fertilizers, as high as $160 a ton, vs. $115 last summer; in polyester fibers, from 75 cents a pound to 82 cents during the same period; and in plastics, like low-density polyethylene and polypropylene, up more than 20% during 1983. But talk to chief executives and they sound a warning note at once. "Volume is improving, but from a very low point," says Paul Oreffice, chief executive officer of $10.6 billion (sales) Dow Chemical Co., which sank sharply in the latest 12 months on Forbes' industry Yardsticks because of slumps in such commodities as caustic soda and ethylene glycol and a sharp swing into the red by its Dowell oil production services. "At the end of 1982 we were operating at 65% of capacity. Now we're at 75%. That's not lousy, it's just bad. We'd like to be in the 80%s, so there's still a ways to go." Not until 1985, in Oreffice's opinion, can Dow hope to get back to peak 1980 levels.

The caution is commendable. Here is an industry with a tendency to get carried away in good times and to overexpand, with dire results, when demand turns down. Under pressure from the recession, the industry has been shedding a lot of the fat. Consider $9.1 billion (sales) Union Carbide Corp., just as badly hurt as Dow on the Profitability Yardsticks and only now beginning to recover after eight successive quarters of down earnings. Since 1978 Carbide has unloaded over $1 billion of assets, and is still at it. Recently the company wrote off $140 million, including a polyethylene operation in Texas and olefin and derivative facilities on the Gulf Coast.

Nevertheless, significant pockets of overcapacity still exist. Since 1980 a spate of plant openings in western

Chemicals

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Diversified												
W R Grace	1	15.0%	7.1%	0.5	3	10.4%	5.5%	2.6%	6	9.7%	5	6.4%
Rohm & Haas	2	14.6	16.5	0.3	2	11.2	12.8	7.3	5	10.0	1	22.0
Dow Chemical	3	13.5	4.9	0.6	8	8.9	4.9	2.3	4	13.1	13	–1.6
E I du Pont	4	13.5	9.2	0.5	1	11.5	7.4	2.8	1	22.5	3	8.3
Diamond Shamrock	5	12.9	7.4	0.5	9	8.8	5.7	3.2	3	18.7	16	–6.1
Hercules	6	12.8	11.4	0.4	4	10.3	10.2	5.7	8	9.0	2	9.4
FMC	7	12.8	12.1	0.3	5	9.3	8.6	4.6	13	7.9	4	7.1
Stauffer Chemical	8	12.2	def	0.3	6	9.0	0.5	def	14	7.6	10	–0.6
Allied Corp	9	11.6	9.0	0.2	10	8.2	7.4	3.7	2	18.8	6	4.4
American Cyanamid	10	11.5	9.7	0.3	7	8.9	7.9	4.3	7	9.4	7	1.8
Union Carbide	11	11.1	4.3	0.4	12	8.1	3.8	2.5	12	8.0	8	0.9
Monsanto	12	10.4	9.2	0.3	13	7.5	6.8	5.4	9	8.9	12	–1.3
National Distillers	13	9.8	4.4	0.2	11	8.1	4.5	2.3	15	6.3	14	–2.4
Pennwalt	14	9.0	6.2	0.4	14	7.1	6.0	2.8	17	6.1	15	–2.8
Celanese	15	8.2	3.1	0.6	16	6.3	3.2	1.2	10	8.6	9	–0.6
Olin	16	8.2	6.9	0.3	15	6.5	5.7	3.0	16	6.1	11	–0.9
Reichhold Chemicals	17	6.3	8.4	0.3	17	5.2	6.1	2.3	11	8.0	17	–7.7
Medians		11.6	7.4	0.3		8.8	6.0	2.8		8.9		–0.6

Note: Explanation of Yardsticks calculations on page 38.
def: deficit.

Canada has helped increase North American methanol capacity 56%, to 2.5 billion gallons. Demand is only 60% of that. Since these Canadian operations run on cheap natural gas, they are a major threat to higher-cost U.S. producers like Celanese, which has Canadian capacity of its own.

Another overbuilt market is that of ethylene glycol, used mainly in antifreeze and polyester fiber. For instance, Union Carbide has a 520-million-pound-capacity plant scheduled to open this year in Alberta. Additions like this will boost capacity to around 7 billion pounds; current demand is only 4.8 billion.

In worse shape is the $650 million soda ash business. In 1980-81 soda ash, used in glass and phosphate refining, was enormously profitable for producers like Stauffer Chemical and FMC. As a result, by 1983 producers expanded capacity nearly 30%—from 9.2 million tons to 11.8 million. The chief player was Tenneco, accounting for 1 million tons of the rise.

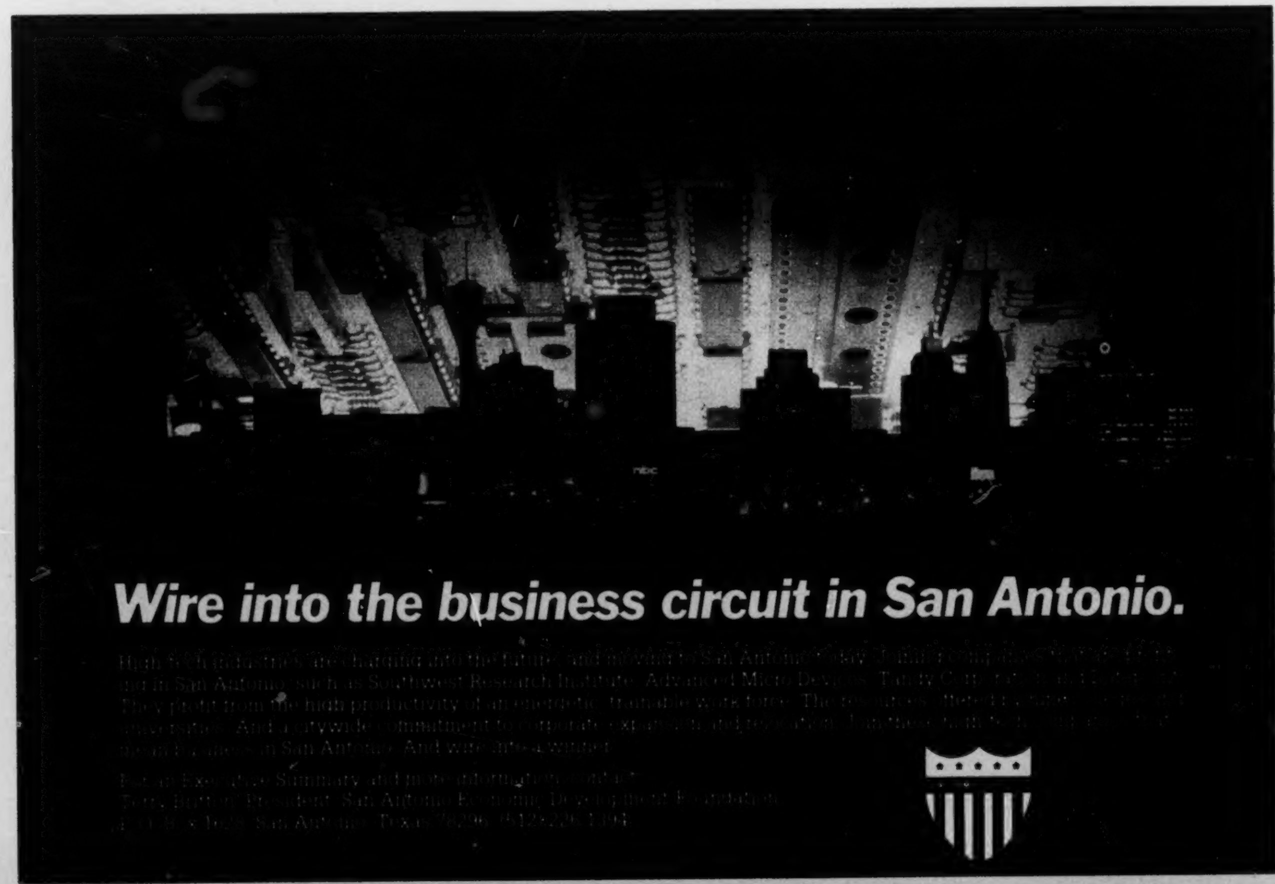
Trouble is, the long-term growth rate of soda ash is a meager 2%. The domestic market simply has been unable to absorb the new tonnage, and foreign markets have grown more slowly than expected. So list prices, which peaked at $92 a ton in July 1981, are now running in the low $80s, and cutthroat competition has even driven actual prices below $70.

Finally, there is chlorine. Although demand is up, the business still isn't operating at much more than a 70% rate. But an estimated 5% of capacity is permanently shut, and this figure ought to double by the end of 1984. Chlorine producers are faced with a real dilemma, though. Because they have already retrenched, greater volume for some products has led to spot tightness and higher prices. "The danger is that once there is the slightest positive news, companies will be tempted to reopen a bunch of plants that should never be started again," notes Dow Chief Executive Oreffice, who says he's still wary of reopening 20% of Dow's own capacity now shut.

Meanwhile, most of the Yardstick companies have been redeploying assets, striving mainly to concentrate their bets in the safer and generally more lucrative specialty chemicals. One of the more enthusiastic proponents of redeployment has been $2.5 billion (sales) Hercules Inc., which along with equally acquisitive Rohm & Haas has held up well in the latest 12 months' profitability rankings. Over the past five years Hercules has wiped off its balance sheet half its 1978 assets of $1.6 billion, consisting mainly of commodity petrochemicals, including $450 million spun off into a polypropylene resins joint venture with Italy's Montedison. In their place are more than $1 billion of new assets (not including the acquisition of Simmonds Precision Products, in electrical components), more than double the amount in water-solubles, aerospace and explosives, and a substantial increase in organics.

"This is one hell of a lot different company than it used to be," says Hercules CEO Alexander Giacco. "What we've done is to strip the oldies down to their bare essentials and then put money behind them."

Hercules is now running at 70% of capacity, which is a bit below average for the Yardsticks chemical companies, and Giacco expects that to approach 80% in 1984. For Hercules, however, that's much higher-margined capacity than it used to be. "We've gone with our winners, value-added products. We've got rid of a pound of basic plastics and replaced it with a pound of water-soluble polymers. In fibers we've got out of polyester intermediates, but stayed in diaper covers and health care disposables."



Despite cutbacks on capacity, there is increased spending on research and development, partly spurred by advances in genetic engineering, the desire to diversify into neighboring scientific fields and growing competitive pressure. At $6.3 billion (sales) Monsanto Co., which drastically cut back its research efforts a decade ago, a full one-third of the $300 million R&D budget now goes into pure discovery, much of that in the field of genetic engineering. The same focusing of research effort is occurring among European chemical giants.

Union Carbide and Shell Oil's chemical division recently announced the development of a new manufacturing process that could cut production costs for polypropylene by one-third and capital costs by about the same. Carbide estimates the price of its new plant, with up to 200 million pounds of capacity, will be $40 million to $45 million.

Breakthroughs like that can open up new markets. Example: Dow used to sell styrofoam only in major markets—the U.S., Japan and Western Europe—because it didn't think it was economical to produce except in a monster plant. Now it has entered smaller markets because it has found out how to get the same economies from plants only one-fifth to one-third the size.

One approach to new products and processes is to take the acquisition route. Few companies in this industry have done that with greater success than $1.6 billion (sales) Air Products & Chemicals, consistently a profit leader in industrial gases in competition with the Linde division of Carbide and British Oxygen (which bought Airco in 1978).

"Over the last 30 years we've had around 120 'special ventures'—either acquisitions, joint ventures or technologies bought and then developed in-house," says Edward Donley, Air Products & Chemicals chairman. "We've managed to stay a specialty company instead of becoming a conglomerate throughout all this because everything has been so closely related. We're not interested in an acquisition candidate unless we already mastered internally two-thirds of its technical and sales knowhow."

If Air Products' profitability in the latest 12 months looks merely average for the industry, the future looks bright. Holding long-term debt to about 35% of total capital, Donley expects to be able to finance capital spending of an average of $400 million a year for the next five years mostly through internal cash flow, modestly increase dividends at the same time, and still have about $1 billion that isn't earmarked. "That," says he, "is the sound of growth."

"When I hear something like this," says Oreffice, "I can understand why many companies want to go clean out of basic chemicals and plastics. But don't overlook the fact that as long as you stay strong technologically and pump money into manufacturing processes, there is plenty of growth potential still available in these products. And you don't need to build more monster plants to get it."

Dow has certainly proved that it is possible to make good money in commodity chemicals—and that the Air Products road isn't the only road. It's not what you do that counts but how you do it. ■

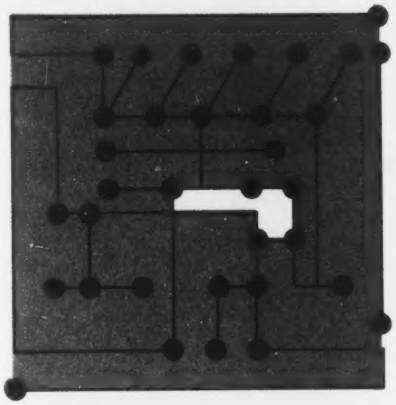
Chemicals

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Specialized												
Freeport-McMoran	1	24.3%	12.4%	0.5	4	16.7%	6.7%	11.8%	3	19.1%	3	21.5%
Nalco Chemical	2	23.5	18.4	0.1	1	22.9	17.8	9.6	11	10.7	8	11.9
Cabot	3	21.3	9.9	0.3	6	14.0	7.5	4.1	1	23.3	1	29.3
Morton Thiokol	4	20.6	16.3	0.2	5	15.6	15.7	5.2	8	12.4	2	26.9
Lubrizol	5	20.6	12.6	0.0	2	19.0	11.8	7.4	9	11.9	13	7.6
National Svc Inds	6	20.1	18.6	0.0	3	17.7	16.8	5.9	12	10.5	5	16.5
Vulcan Materials	7	18.6	10.2	0.2	7	13.6	8.0	5.9	15	9.7	11	10.8
Dexter	8	17.6	16.3	0.3	9	12.7	11.6	5.1	4	17.2	10	10.8
Big Three Industries	9	17.2	8.4	0.3	8	13.2	7.0	7.6	2	19.3	6	14.5
Air Prods & Chems	10	16.8	11.5	0.5	15	10.1	7.6	6.7	7	12.8	7	12.4
Sun Chemical	11	15.8	9.4	0.9	11	10.7	7.1	2.2	6	13.6	4	17.2
Witco Chemical	12	15.6	15.0	0.4	10	10.8	9.9	3.4	5	14.9	12	8.7
Intl Minerals & Chem	13	15.1	8.4	0.4	12	10.5	6.5	5.8	19	6.4	17	1.0
Ethyl	14	14.3	12.5	0.4	14	10.2	8.7	5.9	17	7.5	14	4.4
PPG Industries	15	13.9	12.1	0.3	13	10.4	8.9	5.8	16	8.1	9	10.8
Liquid Air	16	11.7	8.3	0.4	17	9.1	6.1	5.3	10	10.7	18	–0.1
Ferro	17	11.2	8.5	0.4	16	9.9	7.1	2.5	13	10.4	16	1.3
SCM	18	9.2	3.0	0.5	18	7.2	3.4	0.9	20	6.3	15	3.8
Williams Cos	19	9.1	2.4	0.5	19	5.8	2.5	1.6	14	10.1	19	–2.0
Gulf Resources & Chem	20	def	11.8	2.2	20	2.0	7.3	3.0	18	7.4	20	P–D
GAF	21	def	def	0.9	21	def	3.2	0.1	21	–5.0	20	P–D
Medians		15.8	11.5	0.4		10.7	7.5	5.3		10.7		10.8
Industry medians		13.2	9.2	0.4		10.0	7.1	3.9		9.9		4.4
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
P–D profit to deficit. def: deficit.

In this business, everybody has two competitive worries: the other companies and Japan.



Electronics

By Kathleen K. Wiegner

After two years of bad times the recession has ended in the electronics industry. For nearly all companies, however, the 12-month figures in the accompanying Yardsticks still look gloomy. That's because the upturn is recent and the effects of hard times linger in our numbers. The improvement doesn't show in the 1983 Yardsticks, but it will in 1984.

Look, for example, at Intel. Its earnings were a shadow of former highs through the March quarter, but then things suddenly took off. Profits almost doubled in the June period, and then came one of the best-ever Septembers. "This is the strongest recovery I have ever seen," says Chairman Gordon Moore. "There are so many products people want to move into production, but the rate of systems growth will be limited by the availability of components." His company, for example, is having trouble meeting delivery schedules, especially for its popular microprocessors.

Strong demand for semiconductors

Electronics

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
EG&G	1	29.6%	25.3%	0.1	1	26.4%	23.3%	5.2%	8	20.0%	2	25.0%
AMP	2	23.9	20.1	0.1	3	20.9	17.8	10.3	11	16.2	8	17.3
Raytheon	3	23.0	17.4	0.0	2	22.0	17.0	5.2	13	15.1	6	17.8
Hewlett-Packard	4	19.8	18.0	0.0	4	18.9	16.9	9.2	5	24.3	4	22.2
General Instrument	5	19.6	12.1	0.1	6	17.1	11.2	8.0	14	13.6	1	30.1
M/A-Com	6	18.2	9.3	0.4	5	17.4	7.8	4.7	1	46.0	3	24.6
Intel	7	17.8	12.0	0.3	7	16.8	10.0	7.5	2	29.1	11	14.2
Avnet	8	17.7	11.1	0.0	8	16.5	11.0	4.6	17	12.9	13	11.3
Harris Corp	9	17.6	9.0	0.3	12	12.7	6.7	3.9	9	18.3	7	17.6
Perkin-Elmer	10	17.4	9.5	0.1	9	15.2	9.0	4.7	6	20.8	5	18.2
TRW	11	17.4	12.2	0.2	14	11.5	8.6	3.5	21	10.9	17	7.7
Tektronix	12	16.6	7.8	0.2	10	14.4	6.9	4.2	7	20.8	10	14.7
Motorola	13	14.9	11.9	0.2	11	13.5	10.9	5.0	12	15.5	12	12.7
Natl Semiconductor	14	14.5	def	0.4	13	11.5	0.2	def	3	25.8	18	6.4
GTE	15	14.3	15.6	0.9	24	7.5	7.8	7.4	22	9.8	20	5.1
Honeywell	16	14.3	10.6	0.3	15	11.2	8.4	4.0	19	12.4	9	15.5
North Amer Philips	17	13.2	11.2	0.3	19	9.2	7.8	2.5	18	12.5	15	9.3
American District	18	13.0	13.7	0.1	18	9.3	9.4	5.8	16	13.4	16	8.6
American Tel & Tel*	19	12.3	10.2	0.5	25	7.4	6.5	9.7	20	11.7	20	5.1
Corning Glass Works	20	11.5	9.7	0.4	17	9.9	7.3	6.2	24	7.4	19	5.7
Intl Tel & Tel	21	10.9	10.1	0.5	20	8.9	8.5	4.2	25	5.9	22	3.3
Gould	22	10.8	8.2	0.4	21	8.7	7.1	5.3	23	8.0	24	–4.6
Texas Instruments	23	10.1	def	0.2	16	10.5	def	def	10	17.1	23	–2.1
Varian Associates	24	8.6	15.2	0.3	23	7.7	12.9	5.9	15	13.5	14	9.7
Oak Industries	25	3.6	def	0.9	22	8.5	def	def	4	24.4	25	P–D
Industry medians		**14.9**	**11.1**	**0.3**		**11.5**	**8.5**	**5.0**		**15.1**		**11.3**
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
*Data are on predivestiture basis. P–D: profit to deficit. def: deficit.

helped Motorola post gains of 92% in the third quarter, while National Semiconductor had its first profitable quarter since 1982. "I've never seen a market as strong as this," says President Charles Sporck, echoing Moore. "I can't explain it exactly. It seems to be more than just a better economy."

At Massachusetts-based EG&G, they know what Sporck is talking about: The company has done better than the economy for years and tops the Forbes Profitability roster for its industry. The firm's mix of manufacturing specialized instruments and components and providing government support contracts (it is prime contractor to the Department of Energy) leaves it uniquely positioned.

EG&G couldn't beat its five-year return on equity average last year, but that was no disgrace: its ROE was 25.3%. Only 3 of the 25 firms on our list managed to top their five-year profitability figures. The growing demand for alarm systems helped American District Telegraph, though higher installation costs and heavy capital spending should hurt profits next year. GTE benefited from growing sales of its telecommunications products and a $60 million tax settlement. Varian Associates, meanwhile, is recovering impressively from a 1981 deficit.

W.J. (Jerry) Sanders, the outspoken president of Advanced Micro Devices, thinks the recovery is being led by the information revolution. "During the recession," he explains, "people were designing products in anticipation of a recovery." Fortunately, nearly all those new product designs, from small computers to telephone gear, mean more orders for component manufacturers.

Consider AMP, the leading producer of power connectors and the industry's second-best company in terms of long-term profitability. Its products are used in a wide range of markets, from military and aerospace to communications. But each IBM PC also contains around $40 worth of AMP parts. That translated into around $40 million in sales for the $1.2 billion company in 1983. When the PCjr begins shipping this year, it could add another $15 million to AMP's sales.

The good times, of course, haven't hit everyone—and cable television is a common link among many firms that are still suffering. The fall in demand for cable-related equipment, for example, has hurt General Instrument badly. M/A-Com is also suffering because margins on its coaxial cable business are shrinking. Cable operators are shifting away from trunk capacity to less expensive drop lines. Then there is Oak Industries. Its cable equipment business is off, and the company has set up loss reserves of over $70 million related to its departure from subscription television in Phoenix and Dallas as well as inventory writedowns.

Tektronics is hurting badly, but for different reasons. It is the leading manufacturer of oscilloscopes, and sales have been flat for the past two years. Profits fell from over $80 million in 1981 to less than $50 million in the fiscal year ending in May. Now the company has cut its work force by 9% and hopes that expanded R&D spending will add excitement to its product line.

A few microchip producers are having problems, too. At Gould, profits from continuing operations fell 6% in the third quarter as a result of lower semiconductor margins and product delays of new lines of test and measurement equipment. At Honeywell, semiconductor losses are also depressing margins.

Intel's wafer fabrication line
Making chips gets more costly.

But for most component makers, by contrast, the upturn came so quickly that they are straining to keep up. The recession was a curious one: Unit shipments rose while prices fell through the floor—off by 70% on some parts. Now prices are firming, but new orders are hard to fill. "We can barely satisfy our existing customers, let alone prospective ones," says AMD's Sanders.

The book-to-bill ratio is the industry's favorite index of health. When this number exceeds one, it means new orders are outpacing billings. A figure of 1.5 is considered ideal. In October this index stood at 1.56, which means that lots of parts are in short supply—everything from Intel's and Motorola's microprocessors to ordinary logic circuits from Texas Instruments.

In 1984 U.S. and European chipmakers expect to enjoy 24% sales dollar growth rates unless the recovery stalls. But this recovery won't be just like the last one. There have been structural changes in the electronics business that do not signal a simple replay of the boom that followed the bust of the mid-Seventies.

Take markets. In the past, mainframe and minicomputer companies were key factors in any industry turnaround. Now the principal buyers are manufacturers of personal computers, communications equipment and word processors. The auto industry is also a major customer. Ford, for example, estimates that it now uses over $300 worth of electronic gear in every car, not including the radio, vs. $25 in 1970. Fortunately, this broadens the industry's base, both in terms of companies and markets.

Despite the change, not every part is in short supply. Garden variety read-only memories (ROMs), for example, are readily available. They are a key component of video games, a business that has gone bust in recent months. Texas Instruments' exit from the home-computer business also contributed to the glut of ROMs. It is throwing units on the market that were originally intended for its PCs.

Even as the recession hit bottom in the summer of 1982, several dozen new semiconductor companies were springing up, backed by hefty amounts of venture capital, to exploit one or two devices or a particular process technology. A handful, among them LSI Logic, VLSI Technology and SEEQ Technology, have already gone public. While still too small to show up on the Forbes Yardsticks, they point the way to technologies that will be important over the next several years.

Two-year-old Linear Technology, for example, was formed by a group of engineers who left National Semiconductor. It makes analog circuits, which translate analog information (like sound or heat) into on-off digital impulses. Analog circuits are expected to enjoy a 30% growth over 1984. It is no surprise that National Semiconductor is still a big player in that business.

LSI Logic, on the other hand, makes gate arrays. These permit customers to customize standard chip designs. Much of the startup activity stems from this custom or semicustom business. Monolithic Memories has been making a programmable array logic (PAL) chip for some time. But now it has competition from Advanced Micro Devices and National. SEEQ was one of the first with a memory chip called an EEPROM,

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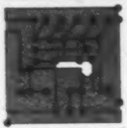


which can be reprogrammed while still in the computer. Many companies, including Japanese firms, see this as a particularly promising product.

When the last recession ended, the Japanese were not significant participants in the U.S. microchip market. That changed, however, when domestic companies ran short of capacity. The Japanese graciously helped fill the gap with 16,000-bit and then the 64,000-bit random access memories. Having destroyed profits and market share for U.S. companies, the Japanese will be back with the new 256,000-bit RAM.

For the moment, the Japanese chipmakers are having troubles supplying demand at home. That may end this year as the new capacity they continued to build during the recession comes on. Then the battle with U.S. firms will be joined again. Quality, once a selling point for the Japanese, is no longer the big issue. U.S. makers have got their own quality up. But price is another matter. As soon as the Japanese have the parts to sell, they could once again penalize profit margins of U.S. competitors by undercutting them.

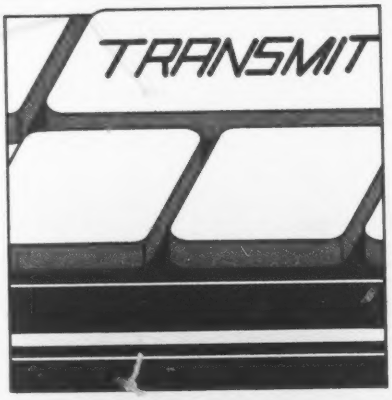
There have been structural changes in the electronics business that do not signal a simple replay of the boom that followed the bust of the mid-Seventies.

Will components makers enjoy the same successes they did after the last recession? At Intel, for example, ROE rose in 1979, to 30% on no debt. Net profit margins were 11.7%.

No one knows if such profitability is attainable again. Aside from the Japanese challenge, the cost of making chips has risen enormously. National Semiconductor's new Texas wafer fabrication facility represents a $100 million investment. After a history of no debt, Intel now has long-term debt of $97.4 million, 6% of total capital. If companies do not earn money to finance these higher operating costs, look for more help from outsiders. Over the past two years, for example, IBM purchased a 12% interest in Intel for some $250 million. Such cross-fertilization of money and talent are old hat in Japan. As the U.S. strives to keep ahead of the ambitious Nipponese, we can expect more such here. ■

IBM is crowding everyone these days, but the game isn't over yet. Not by a long shot.

Computers



By Kathleen K. Wiegner

IBM WAS ON THE MOVE with a vengeance in 1983 in a push to blanket every corner of the computer industry. In November it finally unshelled its "Peanut," renamed PCjr, but decided not to begin shipping until after Christmas—an invitation to the public to put off buying the personal computer until they could see an IBM machine. That was a body blow to competitors in the home computer market, who get as much as 40% of their sales at Christmas. At the same time IBM strengthened its hand in midrange systems with the 4361, which competes with superminicomputers for scientific applications. While in office computers it served notice on Wang, Apple and the terminal makers by giving its hot-selling PC the capability of communicating with IBM 370 mainframes.

Among the top companies on the computer Yardsticks, only IBM managed to improve its five-year return on equity. For many others in the industry things weren't so pleasant. Texas Instruments lost $513 million in home computers before calling it quits. Warner Communications' troubled Atari division was beginning to look like the next victim in that market. Digital Equipment Corp. was hit with an earnings decline of 72% in its first quarter (ended Oct. 1), as price-cutting savaged the minicomputer business and lack of software held back sales of its personal computers. DEC also had heavy research spending. Osborne Computer filed for Chapter 11, and a number of startups went on the critical list—among them, Fortune Systems, Vector Graphic and Victor Technologies.

There were some bright spots, however. TI's defeat was good news for Commodore, now about the only profitable company left in the low-end, mass-merchandise home computer market. Data General, after almost three years of declines and a crash research effort, saw its earnings move up on the strength of its competitively priced Eclipse superminis. Tandy's Radio Shack computer operation strengthened its hand with what may have been the niftiest product of the year—the portable Model 100 (made for Tandy by Japan's Kyocera Corp.), which was becoming as much a part of a traveling journalist's gear as the trenchcoat.

IBM PCs roll off the assembly line
Volume means lower cost.

How to survive in an environment where IBM obviously wants to commandeer once-safe markets? That was Topic A for everyone except for IBM. In personal computers Apple charged ahead preparing for the introduction of its much-touted Macintosh computer this month and pushed its mainstay Apple IIe at customers who wanted something under the tree besides a gift certificate.

For the microcomputer makers the problem is software. Since the IBM PC already has an estimated 26% of the personal computer market, it has become the machine of choice for independent software writers who make money only by writing for popular machines. Apple once had that loyalty, and being able to offer the machine with the most programs contributed mightily to its past success. Now the software world belongs more and more to IBM.

One solution is a computer that can use a lot of the same software as the IBM machine. A number of startups took that route: Compaq, Columbia Data Products, Eagle Computer—or the "IBM Clones," as they are called. Using the same Intel 8088 microprocessor and MS/DOS operating system as IBM, these machines run most of the IBM software, as is.

Cloning looked like a good idea to ITT, which, in a better-late-than-never move, entered the personal computer fray in November. Its entry, the Xtra, is a virtual knockoff of the IBM PCXT (the super PC). ITT may find a market in Europe, where it has a strong presence. But in the U.S. the clones undersell IBM by up to 25%. ITT's Xtra is only 5% cheaper. That may not be enough of a discount to buy ITT a slice of the U.S. market.

Right now there is more demand than supply for the IBM computer. That excess demand is being filled by Compaqs and Eagles. But what happens when supply catches up? "The problem is not easy to solve," muses George Morrow, founder and president of Morrow Inc. "You have to have 25% to 50% better performance than the IBM PC, at least a 15% to 50% better price. Any closer, and why buy anything but IBM?"

"How do you make a profit if IBM gets the biggest share and the lowest cost?" asks Data General Senior Vice President Robert C. Miller, who worked at IBM for 15 years. "Say it takes a half-hour assembly labor for a personal computer. The rest of the cost is buying components and subassemblies. Then it becomes a question of who can buy parts the cheapest." The big-volume buyer, of course. The big-volume buyer really has it made when he cannot only buy cheaper, but can sell dearer as well. That's where IBM is sitting.

Being what it is, IBM also gets the goods when components are in short supply. Ask Victor Technologies. Victor was riding high until 1983. Shipments were expected to hit 80,000 by year-end. Then Victor couldn't get all the disk drives it needed from Tandon Corp. (which also happens to be a big drive supplier to IBM). Shipments were delayed. Setting up a sales force to compete with IBM also cost the company dearly. Result? Victor lost $11.1 million in its second quarter, ended June 30.

Instead of simply cloning IBM, Data General has taken a middle-of-the-road approach to dealing with the software problem. It provides its machines with a dual processor, which allows its users to run software written for Data General's machines and for IBM as well.

Users of Hewlett-Packard's HP 150 cannot run IBM software on their machines but are likely to get most of the same programs anyway. That's because the HP 150, introduced last October, uses the same operating system as the IBM PC. In practical terms that means it will be easy for software writers to produce for both machines at the same time—but will still give HP the possibility of having exclusive software and other exclusive features. "To be a clone limits you in making your own contribution," explains Cyril Yansouni, head of HP's personal computer group. "Price and availability are short-term advantages. I don't want to wake up every morning and worry about what IBM is doing."

Working within what the industry calls "the IBM environment" has become as much of a concern for microcomputer makers as it has always been for the minicomputer and mainframe companies. Companies like HP, DEC and Data General must protect their installed base from incursions by the IBM PC. Office products outfits like Wang must be sure that as offices begin to link their desktop products together, and each into their mainframes, IBM is accommodated. In October Wang began offering software that for the first time links Wang products to IBM machines.

The sheer momentum and size of IBM poses an additional problem for its traditional mainframe competition: Burroughs, Sperry, Honeywell. IBM's growth rate has returned to 15%—the industry rate—after almost a decade of lagging. IBM sales in 1983 were an estimated $40 billion, an increase of more than $5 billion for the second year in a row. That $5 billion almost equals the total size of a Sperry or a Honeywell. With that kind of volume disadvantage, how can they hope to compete when IBM has been pouring money into new plant and equipment (its highly automated factories for the PC are only one example) with the expressed aim of becoming the low-cost producer?

So competitors have begun to join forces to counter the IBM threat. Burroughs, for example, buys part of its office computer line from Convergent Technologies, a young company with a more efficient manufacturing base. DEC, Sperry and CII-Honeywell Bull are helping fund Gene Amdahl's Trilogy Inc., which will try to head off IBM's top-of-the-line mainframe code-named Sierra. Plug-compatible makers like Amdahl Corp. and National Semiconductor's National Advanced Systems (NAS) are relying more heavily on their Japanese partners (Amdahl with Fujitsu and NAS with Hitachi) to deliver timely, cost-effective answers to IBM. But IBM is making it tough. It recently sued NAS, Hitachi and several former employees of both IBM and NAS for $7.5 billion, charging its secrets had been stolen by Hitachi and NAS.

As for Apple, still first on the Forbes Profitability Yardsticks, much depends on the soon-to-be-introduced Macintosh. Mac, as it is fondly known around the company, will incorporate the advanced software found in Apple's high-end Lisa computer, but at a far lower price of around $2,000. Steven Jobs, Apple's cofounder and chairman, admits Apple made some mistakes with Lisa, which originally re-

Computers

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Apple Computer	1	100.5%	28.4%	0.0	1	110.4%	28.2%	7.8%	1	122.3%‡‡	1	98.3%‡‡
Wang Laboratories	2	31.3	20.8	0.4	3	20.5	15.3	10.1	2	51.4	2	50.3
IBM	3	23.2	25.6	0.1	2	21.2	22.6	13.4	10	12.8	10	10.0
Storage Technology	4	20.8	0.6	0.6	6	15.3	2.8	0.3	3	39.6	4	22.8
Hewlett-Packard	5	19.8	18.0	0.0	4	18.9	16.9	9.2	7	24.3	5	22.2
Digital Equipment	6	15.7	7.1	0.0	7	14.2	7.0	5.5	5	30.2	6	21.2
Datapoint	7	15.5	4.0	0.4	5	17.1	4.3	2.4	4	36.8	7	17.6
NCR	8	14.6	13.5	0.2	8	12.9	12.3	7.3	14	7.9	9	10.4
Honeywell	9	14.3	10.6	0.3	10	11.2	8.4	4.0	12	12.4	8	15.5
Data General	10	13.5	4.9	0.3	9	12.0	5.2	2.8	6	29.1	11	8.8
Control Data	11	10.5	8.8	2.0	14	6.9	6.3	3.5	9	13.4	3	23.7
Sperry	12	10.3	6.1	0.3	11	8.4	5.4	2.9	13	8.4	12	2.0
Burroughs	13	8.0	9.0	0.4	13	7.3	7.2	4.5	11	12.4	13	–4.0
Amdahl	14	7.1	8.4	0.2	12	7.3	7.9	4.1	8	22.0‡	14	–14.1‡
Industry medians		**15.1**	**8.9**	**0.3**		**13.6**	**7.6**	**4.3**		**23.2**		**16.6**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. ‡‡Three-year growth.

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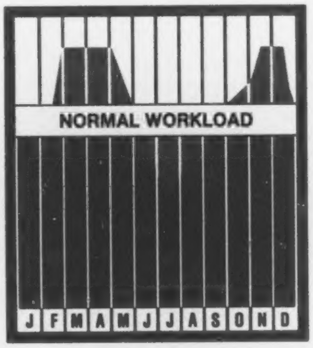

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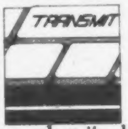


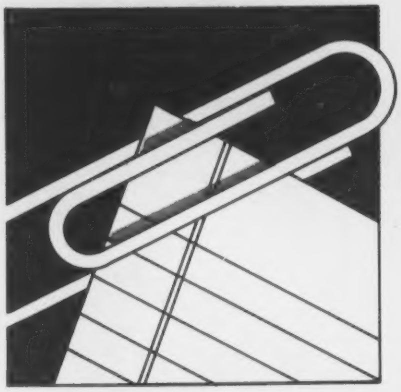
tailed for close to $10,000 when it was introduced. "We made Lisa too expensive for the personal computer market," admits Jobs. "And we were late with the software. Sales have not met our hopes." With Macintosh, Apple is trying for a technological end run. John Sculley, who was brought in from PepsiCo as Apple's chief executive, sees it this way: "If the technology is frozen, then IBM has the office market. But it is naive to presume technology is frozen. We believe we have the possibility with Macintosh of establishing a new milestone."

But times are getting tougher for the industry in other ways as well. Venture capitalists no longer flock to pour money into a new personal computer company. The stock market is betting once again on more established companies. In spite of the boom in sales, microcomputers lost an estimated $600 million early in 1983, largely in the home products. With Commodore the only other viable contender in the under-$1,000 market besides IBM, Japanese companies like Canon, Sharp and Sony will probably try again in 1984 to crack the low end of the American market.

But the combination of Commodore and IBM could be tough to buck even for the Japanese if PCjr is a success. Commodore's sales of home computers hit an estimated 1 million units in 1983. For its fiscal year ended in June, Commodore earned $88 million on sales of $681 million, while at the same time driving TI out of the business, the same TI that had the reputation of being the most "Japanese" of U.S. companies.

The all-important office can, of course, accommodate more than one vendor, so IBM's growing strength doesn't necessarily doom its competitors. But it makes life more difficult for them. It will be important for companies to offer some way for different machines to work together. Users will continue to want access to popular software, so there will be stronger alliances between hardware and software companies. Marketing will become increasingly important. All this plays into the hands of companies with strong capitalization, broad product offerings and large sales organizations. Among IBM's stronger competitors, Apple is strong on innovation, Commodore on price and Tandy on distribution. The others? At this point in the game there is at least as much danger to investors of being stuck with a loser as a winner. ■

Which of the old-line companies in office equipment and services did best last year? Not necessarily the ones you might expect.



Office equipment and services

By John A. Byrne

THE DEATH OF THE typewriter, it turns out, has been greatly exaggerated. Last year the office equipment industry sold an estimated $767 million worth of electronic typewriters. "And there's going to be a huge market in the future for them," says Jack Hiatt, director of business planning for AES Data Corp., whose Canadian parent boasts the third-largest installed base of word processors in the U.S. "In some cases it can do everything an office needs."

To be sure, the typewriter is changing. This year, sales of electronic typewriters are expected to surpass ordinary electric models like the Selectric for the first time, whereas only two years ago electrics were able to outsell electronic models 4-to-1. It's easy to see why. An Olympia electronic typewriter has some 3,000 fewer moving parts than an electric version. But the typewriter is still there.

What's the lesson? Simply that "the whole world doesn't change overnight," says Dean Scheff, chief executive of Minnesota-based CPT Corp., one of the leading makers of word processing equipment. "Change comes relatively slowly." Despite all the hoopla over the office of the future, many office managers aren't yet ready to pull thousands of dollars' worth of coaxial cable through their walls to set up state-of-the-art computerized systems.

There's more than a little irony in this for many of the old-line, traditional office equipment companies, manufacturers of such products as copiers and mailroom and dictation equipment. Many rushed to move into the "glamour" areas of word processing and office automation, fearful they would become dinosaurs. Predictably, most of their ventures have failed.

AM International, of course, is the classic case. It embraced electronic communications systems and word processors, only to roll up huge losses that led to its filing for Chapter 11 in 1982. But even much sounder companies have had their troubles. The only noncopier product in Xerox' lineup for automated office systems—started back in 1979—that can be called an unqualified success is its electronic typewriters. And A.B. Dick Co.'s office products division has made so little impact on the market that analysts think its parent, Britain's General Electric Co., should drop the ax.

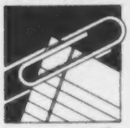
bamberger's
sale

Typewriters for sale
The whole world doesn't change overnight.

Pitney Bowes bowed out of the same business in October, taking a $22.5 million aftertax writeoff, after its word processing business lost $10.6 million on $34 million in sales in 1982.

But is Pitney Bowes in danger because it failed in word processing and its stronghold in the mailroom equipment market is threatened by electronic mail and data transmission? Not necessarily. "We see mail growing as rapidly as any other part of our business," maintains Tom McGarry, a PB vice president. The company still maintains a dominant position in a $1.5 billion market for mail equipment with annual growth rates of 15%. "I remember that we were criticized a few years ago at an analysts' meeting for not getting into the hand calculator business,"says McGarry. "I really don't know what we lost for not being there."

Indeed, all the while it was taking its flyer in the glamorous stuff, the company never lost faith in its basic businesses. Rather, it leveraged its strength in them to spur



continual growth. The financial services business it launched in 1977, mainly to support its traditional office equipment products, now accounts for almost a quarter of PB's earnings. It's no coincidence that the most profitable company on Forbes' office equipment rankings (Pitney Bowes is second) is Comdisco, Inc., an Illinois-based firm that arranges the leasing and finances the purchase of IBM computers. (The tables don't show companies like Apple, Wang, IBM and Digital Equipment, even though they may be the dominating companies in this industry today. See computer industry survey and rankings, beginning on p. 180.)

While Pitney Bowes is finding that the basics are serving it well, so is Canada-based $1.9 billion (sales) Moore Corp., the largest business forms producer in the world. You would think the future of any company producing paper and business forms might be less than rosy given the advent of the computer and the so-called paperless society. Judson W. Sinclair, Moore's chief executive, has discovered the opposite. He has happily found that the growth of small and large computers is increasing the dollar volume of orders for Moore's forms three times as fast as they are being eroded by competing new technologies. Why? "The automation of data doesn't do away with hard copy," says Sinclair. "Much of the data from computers was never available before. If the computers eliminate paper in one place, they seem to create more of it in another."

Meanwhile—just as with Pitney Bowes and A.B. Dick—success still eludes Moore Business Systems division, the company's most visible effort to move into the office of the future by selling information systems to small business. For five consecutive years since its start in 1978, the operation has been in the red.

And now, surprisingly, the word processor itself—the very invention that was to make paper and typewriters artifacts of the past—is threatened by personal computers. If you can buy a computer and do word processing on it, among numerous other functions, why bother with a word processor? John A. Murphy, vice president of Advanced Office Concepts, a consulting firm for office automation, notes that you can now buy an IBM PC and add a separate keyboard and quality word processing software package for at least $1,000 less than a basic word processing system.

This fact of life is forcing the word processing companies to build computer functions into their systems, so the distinction between the word processor and personal computer is increasingly blurred. Consider Lanier Business Products, a traditional office products company that, unlike most others, successfully diversified into word processing systems. Now, as a new subsidiary of Harris Corp., it finds it must make another crucial transition: into high-end office automation systems from the stand-alone word processing business.

Moral: Even a traditional office products company that has proved it can make the transition to high-tech products still isn't out of the woods. Sometimes it makes more sense to stick with what you know best and take your time about upgrading technology to meet the demands of the future. It doesn't get here overnight. ■

Office equipment and services

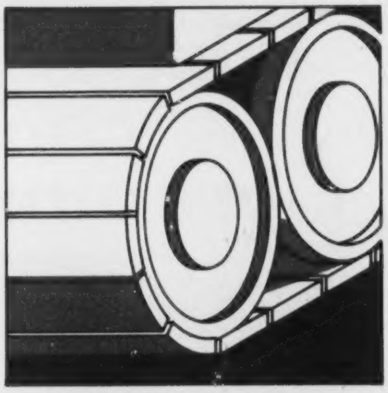
Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Office equipment												
Comdisco	1	40.8%	46.0%	0.7	1	23.0%	30.8%	9.5%	1	33.5%	1	49.9%
Pitney Bowes	2	17.8	14.3	0.2	4	12.8	9.8	5.1	3	19.4	2	12.2
Moore Corp	3	16.8	13.5	0.1	2	14.1	11.9	5.5	6	9.6	3	7.0
Xerox	4	15.3	10.0	0.2	3	13.6	10.1	5.3	4	12.1	4	6.2
Bell & Howell	5	5.1	19.2	0.4	6	4.7	14.5	5.1	7	6.0	5	1.2
Savin	6	3.5	def	2.1	5	11.3	def	def	2	30.1	6	–20.0
Nashua	7	1.0	def	0.7	7	3.0	def	def	5	10.3	7	–35.0
AM International	8	def	NE	NE	8	def	12.7	0.5	8	3.3	8	P–D
Medians		10.2	11.8	0.3		12.1	11.0	5.1		11.2		3.7
Office services												
Allegheny Beverage	1	29.0%	35.3%	3.8	6	14.0%	10.2%	2.1%	1	27.5%	1	23.9%
Electronic Data Systems	2	26.4	27.4	0.1	2	23.0	22.7	9.4	2	25.1	4	17.5
Kelly Services	3	24.5	18.3	0.0	1	24.6	18.2	3.2	5	19.9	2	18.5
Computer Sciences	4	23.4	11.0	0.4	5	14.7	9.1	2.2	4	19.9	5	14.8
Purolator	5	20.5	21.9	0.5	4	15.1	15.6	3.9	7	14.4	6	14.0
Auto Data Processing	6	20.3	16.8	0.1	3	16.7	14.0	8.5	3	23.2	3	18.2
Parker Pen	7	11.3	def	0.2	7	11.3	def	def	6	16.5	7	–1.5
Medians		23.4	18.3	0.2		15.1	14.0	3.2		19.9		17.5
Industry medians		17.8	14.3	0.2		14.0	11.9	3.9		19.4		12.2
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit. NE: negative equity.

The recession was almost the least of the problems in this troubled group of industries.

Construction, mining, rail equipment



By **Barbara Rudolph**

After close to 100 years in the business, Harnischfeger decided several months ago to stop manufacturing cranes in the U.S. "We were banging our heads against the wall," says Harnischfeger President W.W. Goessel. Beginning in late 1985 Harnischfeger will be buying virtually all of its cranes from Japan's Kobe Steel, which currently owns 10% of Harnischfeger's stock.

Why did Harnischfeger, this proud old middle-western company, throw in the towel? What choice did it have? Only about $130 million worth of cranes were sold in the U.S. in 1983, as against about $700 million in 1981. Even when a pickup comes, a good guess is that by 1986 the total U.S. crane market will level off at only around $400 million. But that's not the worst of it: Into these shrinking markets the Japanese may be about to launch an invasion with their vaunted manufacturing efficiency and quality standards.

At the moment, there are virtually no Japanese cranes for sale in the U.S. market, but the prospect of the Japanese invasion probably helped persuade Harnischfeger to get out. The first onslaught is expected in the lower end of the market, telescoping or hydraulic cranes that lift less than 100 tons and account for about half the total market. "Sumitomo and Hitachi are coming, and when they do it will be a classic confrontation," says Robert Nassau, president of American Hoist & Derrick, which gets some 35% of its sales from cranes. With Harnischfeger no longer manufacturing in the U.S., Manitowoc, American Hoist, FMC and Grove are the only major U.S. manufacturers left. To prepare for the expected invasion, Ameri-

Construction, mining, rail equipment

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Heavy equipment												
Joy Manufacturing	1	13.3%	0.6%	0.1	1	11.5%	1.0%	0.5%	1	8.7%	1	6.2%
Hyster	2	11.1	0.1	0.2	2	9.6	0.5	0.0	6	5.0	2	2.2
Caterpillar Tractor	3	6.5	def	0.7	3	6.6	def	def	2	6.1	4	–14.3
Bucyrus-Erie	4	5.9	def	0.4	4	5.8	def	def	3	5.6	3	–13.6
Clark Equipment	5	2.4	3.1	0.3	6	2.6	3.8	1.6	8	–1.2	5	–31.1
Amer Hoist & Derrick	6	1.6	def	0.6	5	2.7	def	def	5	5.2	6	–36.0
Harnischfeger	7	def	def	0.9	8	def	def	def	4	5.3	7	P–D
Pettibone	8	def	def	2.5	7	def	def	def	7	4.3	7	P–D
Medians		4.2	def	0.5		4.3	def	def		5.3		–22.7
Rail equipment												
Amsted Industries	1	13.1%	def	0.0	1	12.7%	def	def	4	6.5%	2	3.0%
GATX	2	10.4	4.3%	1.5	4	5.3	3.9%	2.5%	3	6.9	1	6.7
ACF Industries	3	9.8	0.2	0.7	3	6.2	2.4	def	5	5.8	3	–0.2
Ampco-Pittsburgh	4	7.9	def	1.2	2	9.8	1.7	def	2	22.8	4	–0.6
Tiger International	5	def	def	4.8	5	1.5	def	def	1	23.8	5	P–D
Medians		9.8	def	1.2		6.2	1.7	def		6.9		–0.2
Industry medians		6.5	def	0.7		5.8	def	def		5.8		–13.6
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.

can Hoist says it will be bolstering its entire crane line. It recently developed a model that can lift up to 1,000 tons (the prior limit was 450 tons) for use in offshore drilling.

More important, American Hoist, like everyone else, has been aggressively cutting costs. Over the past year and a half, the company's employment fell from 7,200 to 3,700. Plant capacity is down by a third. Will that be enough? Never more than average in profitability, American Hoist plainly should be worried about its future.

In these heavy equipment markets, the derrickmakers are not alone in adversity. "We have to acknowledge that the good times of the late 1970s were the freaks. Normal times will probably be harsh times," says Joy Manufacturing President A.W. Calder *(see box, p. 192)*.

Manufacturers of heavy equipment are getting used to adversity. "The good times of the late 1970s were the freaks. Normal times will be harsh times," says Joy Manufacturing President A.W. Calder.

Is it little wonder that well-managed Caterpillar took a long, messy strike to try holding down manufacturing costs? Cat has also put pressure on its suppliers to lower their prices. One longtime supplier, Wyman Gordon, already has lost "quite a lot of business," says a company spokesman. Most of it went to German and Japanese companies, including Sumitomo and Gerlach, though Wyman has had it for years.

Caterpillar remains the leader in earth-moving equipment—with a 35% share of the $17 billion worldwide market. But a series of setbacks, some more avoidable than others, has left the company weaker than it has been in many years. First there was the ill-timed and ill-advised acquisition of the solar turbine division of International Harvester in 1982. This cost the company $500 million and helped weaken its once strong balance sheet to the point where by 1983 debt was nearly 40% of capital. Then, in 1982, the trade sanctions Washington imposed against the Soviet Union in the wake of the Polish crisis meant that the company lost out on selling at least $500 million worth of equipment for the Soviet pipeline, analysts estimate. Finally, the recession was

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longer and deeper than the company had anticipated it would be.

But Cat's biggest threat comes from a company whose name does not appear among FORBES' list of competitors. That company is Komatsu, another Japanese manufacturer. Its share of the $6 billion U.S. earth-moving machinery market has jumped from 2% to about 5% over the past five years, as the company has broadened its line of earth-moving equipment. Komatsu's prices worldwide can be as much as 25% below Caterpillar's, thanks to the strength of the dollar, which can buy even more yen-denominated goods than it could last year.

Caterpillar is certainly a survivor: Chances are both Cat and Komatsu will gain market share at the expense of companies with less clout in the market like American Standard's Wabco or Dresser's International-Howe. One recent casualty: The Terex subsidiary of IBH Holdings filed for Chapter 11 in November.

Riding out the storm

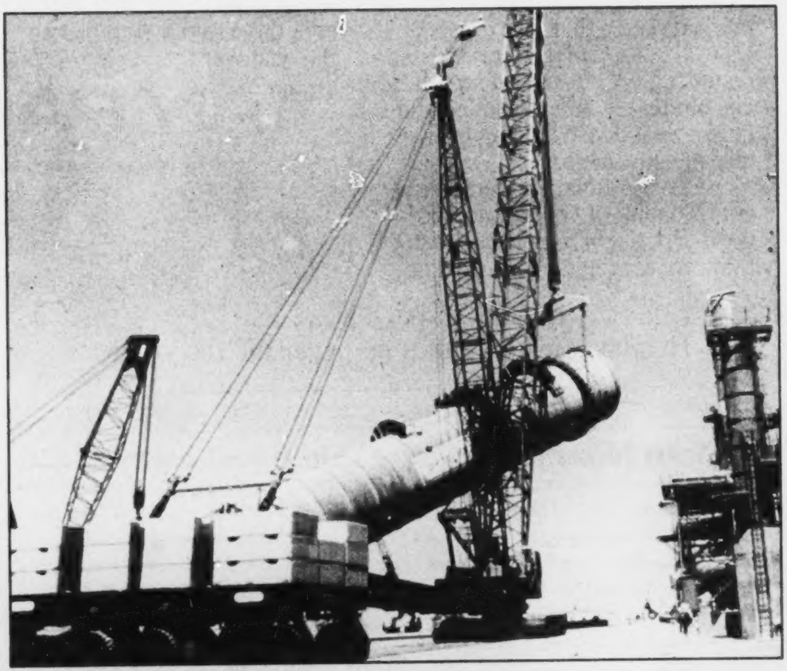
Will those order books for capital goods products ever fatten again? "Well," sighs Joy Manufacturing's chief executive A.W. (Bill) Calder, "it looks as though bookings have hit bottom. There is a twitter of a pickup here and there, but I sure am reluctant to call it a sustained recovery. Still, at least orders aren't dropping."

It's that kind of healthy skepticism—realism nearly always triumphing over optimism—that makes Joy, a manufacturer of mining and oil services equipment, one of the industry's leaders in profitability in the Forbes Yardsticks.

Joy's trademark has been its clean balance sheet. Today the company is sitting on about $200 million in cash and is shopping around for an acquisition. An acquisition, mind you, not a diversification. Says Calder: "We don't want to be yet another company that has gone into a new business only to have it turn into a disaster." So he's looking at acquisitions in compressors, mining, oil or air pollution control groups, his core businesses. He's also pruning. In the past year Calder has dumped his rotary drill division and certain compressor lines. As for that cash hoard, he's going to spend it carefully. He says, "We can take care of that $200 million real quick, but badly, and then it will be the next generations at Joy who will have to slave to get it back."—**B.R.**

Even without pressure from the Japanese, a similar shakeout is taking place in the railcar industry, the most depressed of all heavy machinery groups. Not since the Thirties has demand been so weak. Deliveries of railcars in 1983 might hit 5,700, down from the peak of 90,000 in 1979. With economic recovery, they might hit 10,000 in 1984, not much of an improvement in an industry operating at only 10% of capacity. Not until the late 1980s does the industry have a chance of seeing demand reach 50,000 railcars a year.

"A shakeout is coming, but everyone is saying, 'Please, God, not me,' " GATX executive James Goff told FORBES in 1982. This past year it turned out to include him, as GATX announced in October that it was closing, among other things, its railcar manufacturing group.



American Hoist crane lifts 1,000 tons
Dead ahead, a "classic confrontation."

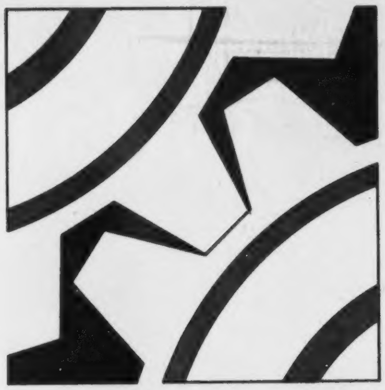
Elsewhere in the railcar equipment industry there have been several plant closings as well. Midland-Ross, for example, closed its Sharon, Pa. plant, eliminating one-third of the company's capacity to make railcar castings. Richmond Tank Car this past year filed for protection under Chapter 11 for its railcar leasing division. And there are undoubtedly many plants that are now "temporarily" shuttered which will never reopen.

Nor is all this just the shuttering of obsolescent capacity. There was widespread expansion in the late 1970s—partly because boxcars were popular tax shelters—so a lot of factories are new and have not been fully depreciated yet.

With so bleak a prognosis for the railcar group, why then is profitable little Trinity Industries (ranked in the specialty section of the industrial equipment industry on page 194) actually expanding its presence in the business? Why in October did the company agree to pay $15 million to buy the Pullman railcar plants, with a capacity of some 20,000 cars a year, and Pullman's proprietary railcar designs as well?

The answer is quite simple: labor costs. Trinity is no sweatshop operator, but with its nonunion plants Trinity is not handcuffed by restrictive union rules. Cast in that light, the industry's efforts to reduce its labor costs look less like union-busting and more like a desperate effort to preserve jobs. ■

The U.S. machine tool industry is finally seeing daylight. Will 1984 be the turnaround year?



Industrial equipment and services

By Jill Bettner

THE DEMAND OUGHT TO BE there. U.S. plant and equipment is among the oldest, on average, in the industrialized world, and has been for decades. For producers of industrial equipment, still languishing in the worst depression the industry has seen since the Thirties, the questions are when that demand will finally materialize and who will supply it. Last year all but four of the companies listed here had lower profitability than their historical averages, and median profitability declined by 53%.

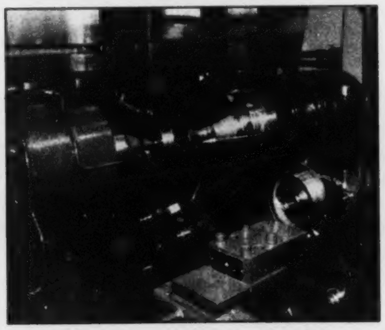
As 1983 drew to a close, machine tool orders were up significantly. But the increases were on such a small base of continuing business, and there had been so many false starts, that industry leaders were still wary. "We see enough light in the general industrial area to be optimistic," says Ingersoll-Rand CEO Thomas Holmes. "When you have been optimistic too long on one side, the tendency is to be pessimistic too long on the other side."

Certainly no one was predicting a rebound any time soon in farm equipment, heavy machinery for the depressed steel and oil services industries and mining. But they were heartened by the pickup in orders for transfer lines, numerically controlled milling machines and machining centers from auto producers and other consumer-related manufacturers.

Says automotive supplier Eagle-Picher CEO Thomas Petry: "Nineteen eighty-four will be a very strong year for us." Orders for numerically controlled machine tool components such as bearings and castings are up sharply, though Petry's backlog of heavy machinery, including orders for earth-movers and oil drilling equipment, is about the same as a year ago.

Now, nobody is forecasting a return to anything near the machine tool industry's record $5 billion order backlog before the bottom fell out of capital spending in 1981. After all, machine tool orders for all of 1983 were only $2 billion. But that was a 33% improvement over last year. "There are signs that demand for machine tools is getting healthier. The question is, where are they going to come from?" asks Jim Gray, president of the National Machine Tool Builders' Association.

Japan is the fear, of course. It continued to build up stockpiles of unsold tools, primarily numerically controlled machining centers and lathes, in U.S. warehouses, even as demand steadily declined. Domestic producers say those inventories still haven't been worked off, even at steep discounts. "They reduced prices to move product, but not very successfully," says Cross & Trecker CEO Richard Lindgren. Jim Geier, chief executive of Cincinnati Milacron, believes a large number of Japanese machines sold in the past two years have been returned unpaid for.



Orders for new machine tools are up
Will Detroit lead a real recovery?

Domestic producers say they are as hungry as the Japanese, however, and just as efficient. Not surprisingly, perhaps, those companies at the bottom of the Forbes Industry Yardsticks have been cutting costs most decisively. Typical is Rexnord, which cut its dividend 63% last year and which has cut costs by closing plants and selling off sidelines. "We've got our break-even point down to about two-thirds of what it used to be," says Robert Krikorian. He expects a 1984 increase of between 7% and 8% in shipments of Rexnord's power transmissions, specialty gears and fasteners. But things don't look as encouraging for its other two major businesses: process machinery for mining and materials handling equipment. "They will be pretty flat," he says.

Acme-Cleveland, which reported a $32 million loss for 1983, closed six plants and discontinued two small businesses in an effort to drive its break-even point down still further. One bright spot is that Acme-Cleveland's important automaker customers have placed some orders for manufacturing systems. "They're beginning to open up their purses," says Roy Kuhn, president of the newly formed Acme Technology Group.

Cross & Trecker's Lindgren thinks the worst is over for machine tools. "The industry has started to make its turn," he says. "The recovery is being driven partly by defense and aerospace as well as automotive. But the good news will have to get consistently better," Lindgren goes on. "Our order rate is up about 33%, but it's still running at about 50% of the prior peak." Nothing like Detroit's crash downsizing capital-spending program that put Cross & Trecker on top of the industry's Profitability Yardsticks is on the horizon. Currently, Lindgren is hoping that sales of sophisticated flexible manufacturing systems with multiple machining capabilities will get a boost from companies that recently migrated to the Sunbelt to save on labor costs. "They can't get that 50% reduction in wage costs with trained machinists in those plants," he says.

Among industrial service concerns, where there has been far less downward pressure on earnings in the latest 12-month numbers, still-sagging prices for steel and other commodities like copper remain a problem. For Anixter Bros., whose major market is the telecommunications industry, "1983 was a trying year," says CEO Alan Anixter, who reported a 36% decline in earnings for 1983, to $10.3 million. "But orders are growing toward respectable levels," Anixter says. The breakup of AT&T should mean more business for Anixter, which has built three new warehouses for telephone-related equipment in the past year because of the divestiture. "We've spent a fortune preparing for it." Last June his company and Cincinnati Bell announced the formation of Anixter-Cincinnati. The partnership will offer a complete line of electrical and electronic wire and cable, plus cable TV and telecommunications supplies and equipment.

But for most of the industry the market still looks dead. "Major capital spending still hasn't started to boom," says John Lux, chief executive of Ametek, Inc., the $424 million manufacturer of process equipment, electric motors and other components for consumer products. Although a strong resurgence in consumer spending and judicious cost-cutting enabled Lux to keep Ametek at the very top of the industry's Profitability Yardsticks, he remains skeptical about the recovery. "A lot of what we're doing for customers now is just replenishing their inventories," he says. Indeed, Lux split Ametek's stock 2-for-1 last July and diversified out of the business in August by buying a small plastic packaging materials company.

Help!

About 38% of the machine tools installed in U.S. factories in the first six months of 1983 were built overseas. James Gray, president of the National Machine Tool Builders' Association, which compiled those statistics, is pessimistic about the future. He believes imported machines could go over 50% in 1984 for the first time. "And then it will just snowball." Gray, of course, has an ax to grind. He wants import quotas.

The Commerce Department has until Mar. 14 to recommend whether President Reagan should accept or reject a petition by the NMTBA to set a mandatory limitation on imports to 17.5% of U.S. consumption for five years.

Not every tool manufacturer is whimpering to Uncle for help. Robert Krikorian, chief executive of Rexnord, for one, doesn't want quotas. "I don't think it's the way to go," he says. "I can see other industries that are also facing very severe competition and need a little respite. But this world of ours isn't going to improve by putting up walls between countries."

But those who do favor import restrictions like to wrap themselves in the American flag. "This is a far more critical issue to the country than it is to the machine tool industry," says Richard Lindgren, president of Cross & Trecker, which makes numerically controlled machinery.

"Philosophically, we are all free traders. But the Japanese balance of trade is anything but free and fair," says Eagle-Picher Industries CEO Thomas Petry. His company makes components for heavy machine tools.

Funny, isn't it? Nearly everyone is for free trade except when immediate interests are threatened.—J.B.

These uncertain prospects are, of course, what would be expected in an industry that typically lags a recovery. If anything, the upturn in machine tools is ahead of schedule. It usually doesn't start cooking until capacity use hits 80% and manufacturers can no longer afford to put off buying new capital equipment. Capacity use currently stands at about

Industrial equipment and services

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Production equipment												
Cross & Trecker	1	19.9%	1.7%	0.1	1	18.5%	1.9%	2.5%	2	12.7%	1	22.7%
Briggs & Stratton	2	17.5	8.9	0.0	2	16.9	8.3	4.1	5	11.1	5	5.3
Parker-Hannifin	3	15.4	7.9	0.3	3	12.8	6.9	3.4	1	16.5	4	6.8
Cincinnati Milacron	4	15.3	def	0.3	6	11.1	def	def	7	8.6	2	16.7
Harsco	5	13.3	7.1	0.3	5	11.2	6.4	3.2	6	9.9	6	3.3
Norton	6	13.2	4.9	0.3	4	11.3	5.0	2.4	4	11.7	3	7.0
Ingersoll-Rand	7	9.9	def	0.5	7	8.1	0.3	def	9	8.1	7	–2.7
Eagle-Picher Inds	8	9.5	5.5	0.3	8	8.0	5.2	2.4	11	5.7	8	–3.4
Midland-Ross	9	8.2	def	0.6	9	7.7	def	def	3	12.7	9	–4.6
Acme-Cleveland	10	5.9	def	0.3	10	5.0	def	def	8	8.4	10	–4.9
Chic Pneumatic Tool	11	def	def	0.7	11	3.0	def	def	10	7.4	11	P–D
Medians		13.2	1.7	0.3		11.1	1.9	2.4		9.9		3.3

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.

79% and isn't expected to reach 80% until mid-1984. "We're getting there," says Cincinnati Milacron's Geier, "but we have to be awfully careful."

The warning is well taken. Machine tool producers nowadays must cope not only with shorter cycles in their notoriously cyclical business but also with more rapid innovation as well.

That's why the industry is littered with recent casualties. "A lot of them didn't mind their business," Geier says. "You have to keep modernizing, keep R&D up."

Jim Geier learned that lesson the hard way. Cincinnati Milacron used to own the U.S. turret-lathe market until it woke up in the Seventies to discover that the Japanese had walked off with a big chunk of it. Like countless smaller U.S. machine tool builders, Cincinnati Milacron was forced to take the high ground in more specialized, and usually more sophisticated, machinery.

Small wonder, then, that despite Cincinnati Milacron's net loss for 1983, Geier continued investing in experimental manufacturing systems, including machines for use with a wide variety of synthetic materials like graphite-based composites. "With the sophistication of these new machines, it's becoming more and more difficult to keep up spending," he says.

Geier should be happy he can still afford it. A lot of his competitors aren't so fortunate. ■

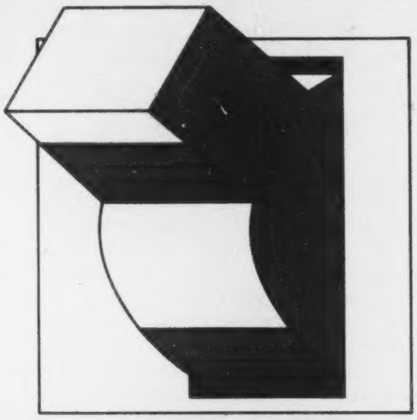
Industrial equipment and services

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Specialty equip, materials												
Trinity Industries	1	23.8%	7.0%	0.4	1	18.8%	6.6%	3.2%	3	18.6%	3	17.5%
Foster Wheeler	2	21.3	14.2	0.1	2	18.7	13.4	3.3	22	7.4	1	17.7
Ametek	3	20.1	19.4	0.3	6	14.6	14.2	7.3	16	9.8	12	10.2
Combustion Eng	4	19.8	13.6	0.1	10	12.9	9.8	3.8	12	11.9	4	17.0
Sundstrand	5	19.4	9.3	0.2	9	13.6	7.7	5.0	17	9.7	7	13.5
Cooper Industries	6	18.1	3.7	0.2	4	16.6	4.3	3.1	1	29.1	10	12.0
Harris Corp	7	17.6	9.0	0.3	13	12.7	6.7	3.9	4	18.3	2	17.6
Illinois Tool Works	8	17.3	15.7	0.0	3	16.7	14.7	10.1	15	10.6	9	12.3
Zurn Industries	9	16.9	12.1	0.2	14	12.6	9.4	5.0	24	7.2	5	14.9
Tyler	10	16.3	9.7	1.2	11	12.8	8.4	1.8	6	16.8	18	5.0
Emhart	11	16.1	16.6	0.3	8	13.8	12.7	4.9	8	14.3	16	6.2
Tecumseh Products	12	16.0	13.7	0.0	5	15.9	13.3	6.5	26	5.7	15	7.3
Avery International	13	15.4	15.7	0.6	17	11.5	11.8	3.9	11	12.2	6	14.8
General Signal	14	15.0	10.3	0.1	7	14.1	9.6	5.5	5	16.8	8	12.5
Stanadyne	15	14.7	11.5	0.2	15	12.1	9.4	4.9	20	8.4	17	6.0
Dennison Mfg	16	14.5	13.2	0.3	12	12.7	11.4	4.4	13	11.6	14	7.4
Ex-Cell-O	17	13.9	11.6	0.1	16	11.9	10.0	5.1	7	16.2	11	10.3
Foxboro	18	11.4	3.1	0.1	18	10.6	3.2	1.9	14	10.6	19	4.5
Stewart & Stevenson	19	10.7	6.9	0.5	19	8.7	5.7	2.2	9	13.4	20	–1.4
McDermott Intl	20	8.6	7.4	0.3	25	6.3	6.0	3.0	2	20.0	25	–9.2
Rexnord	21	8.4	2.4	0.4	22	7.7	3.1	1.1	19	8.6	24	–7.6
Research-Cottrell	22	8.3	4.2	0.3	20	8.2	4.7	1.3	10	12.5	13	8.9
Stewart-Warner	23	8.0	2.2	0.0	21	7.9	2.2	1.5	30	2.3	21	–5.0
UMC Industries	24	7.9	2.1	0.7	24	6.9	3.2	0.7	21	7.9	23	–6.8
Timken	25	7.7	def	0.0	23	7.2	def	def	25	6.0	22	–5.1
Dayco	26	6.5	1.8	1.3	26	5.0	2.9	0.4	23	7.3	26	–10.3
Amerace	27	5.5	def	0.4	27	4.4	def	def	28	3.5	27	–13.3
Peabody Intl	28	2.2	6.2	0.3	28	4.1††	5.5	1.7	18	8.8	28	–26.5
Allis-Chalmers	29	def	def	0.5	29	def	def	def	27	3.7	29	P–D
General Refractories	30	def	def	3.3	30	def	def	def	29	2.8	29	P–D
Medians		14.6	8.2	0.3		12.0	6.7	3.2		10.2		6.8
Industrial services												
PHH Group	1	23.7%	20.0%	2.6	6	6.6%	8.3%	6.1%	2	30.5%	4	21.7%
Waste Management	2	22.9	18.0	0.3	2	16.4	13.5	11.7	3	29.3	1	30.7
Anixter Bros	3	21.4	10.8	0.6	3	15.7	8.5	2.0	4	20.7	3	22.4
National Svc Inds	4	20.1	18.6	0.0	1	17.7	16.8	5.9	6	10.5	5	16.5
Browning-Ferris Inds	5	20.0	21.5	0.3	4	13.7	16.1	9.3	5	15.9	2	23.0
Gelco	6	17.9	def	6.7	5	8.4	4.6	def	1	36.8	6	13.1
Medians		20.8	18.3	0.5		14.7	11.0	6.0		25.0		22.1
Industry medians		15.0	7.1	0.3		11.5	6.4	3.0		10.6		7.0
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
††Three-year average. P–D: profit to deficit. def: deficit.

Producers of electrical machinery typically lag in a recovery, which is why most of them are so optimistic about 1984.



Electrical equipment

By Jill Bettner

LAST YEAR THE ECONOMIC recovery was fueled primarily by the consumer, with declining interest rates triggering a sharp uptick in housing starts. That normally doesn't have much effect on the electrical machinery business, so it's surprising the Yardstick companies were able to turn in as good a performance as they did. Their decline in median profitability for the latest 12 months was right in line with the all-industry numbers.

"We were very pleased we were able to sneak through this year," says Charles Knight, chief executive of Emerson Electric Co. Sneak through is right. The St. Louis-based electrical equipment manufacturer chalked up a $303 million profit for 1983, a razor-thin 1% increase over 1982, but enough to claim its 26th consecutive year of earnings growth. That was a significant accomplishment last year in an industry that was still waiting for the long-overdue upturn in capital spending.

The exceptions were few in the latest 12-month figures on the Profitability Yardsticks below. The only two companies to show gains were the temperature control companies—Robertshaw and Johnson—both of which benefited from the comeback in housing, the boom in major appliances and the rebound in auto sales. For most other Yardstick companies, the recovery is still on the horizon. Hard hit by losses in Brazil and barely breaking even on the sale of transmission and power-generating equipment to utilities (and process equipment to the petrochemical industry), Chicago's McGraw-Edison stumbled on its Yardstick Profitability rankings for the latest 12 months. But a sharp recovery could come this year. Both the industrial and commercial markets for its compressors and transformers are likely to improve.

Earnings on the sale of General Signal's industrial instrumentation and control systems fell about 20% last year, the second consecutive decline. "But we're seeing some momentum now," says CEO Nathan Owen. "Nineteen eighty-four? I feel good about it."

Like most electrical equipment manufacturers, General Signal, not on the Forbes list, has diversified to less-

Electrical equipment

Yardsticks of management performance

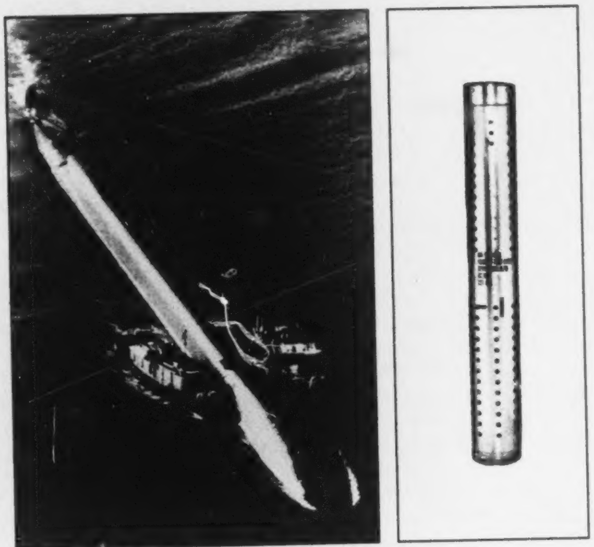
	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Tyco Laboratories	1	26.5%	13.2%	0.6	8	14.5%	8.9%	3.4%	1	31.2%	2	21.6%
Emerson Electric	2	21.0	19.5	0.1	1	19.7	17.9	8.7	5	15.4	5	13.2
General Electric	3	20.3	19.4	0.1	2	18.3	17.7	7.3	10	9.9	8	12.0
Square D	3	20.3	12.5	0.2	5	16.6	10.6	5.6	8	12.9	10	8.1
National Svc Inds	5	20.1	18.6	0.0	3	17.7	16.8	5.9	9	10.5	3	16.5
W W Grainger	6	17.7	13.4	0.1	4	17.2	12.4	5.9	7	13.5	6	12.6
Raychem	7	17.2	10.8	0.1	7	15.7	9.8	5.1	3	23.5	1	22.9
Harvey Hubbell	8	17.2	14.0	0.0	6	16.2	13.2	7.8	6	14.9	7	12.2
Westinghouse Electric	9	15.4	12.8	0.2	9	13.7	12.1	4.3	11	7.8	4	15.5
Johnson Controls	10	14.6	15.3	0.3	10	11.6	12.3	4.5	2	25.4	9	11.9
McGraw-Edison	11	11.2	6.8	0.7	11	10.0	6.4	1.9	4	15.8	12	4.8
Robertshaw Controls	12	8.8	11.8	0.4	12	7.3	9.5	3.6	12	7.3	11	5.3
Industry medians		17.5	13.3	0.2		16.0	12.2	5.4		14.2		12.4
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.

en its dependence on utilities and nonresidential construction. With both those traditional markets still soft, Owen is glad he did. His emphasis has been on semiconductor processing and on telecommunications. He made no fewer than nine acquisitions in those industries last year and plans more. "I believe in 1984 we'll be back up to a new earnings record or close to it," Owen declares. "By 1985 we'll really look like heroes."

National Service Industries CEO Erwin Zaban is confident that industrial lighting, one of the old electrical equipment mainstays, is poised for a rebound. "We're seeing some improvement already," he says, though big gains typically lag the building recovery by six to eight months. "In 1984 we're looking for lighting to be a real plus," he says.

Knight agrees. "We're looking for a recovery in all of our capital-goods-related businesses, including process controls, motors and drives, professional tools and nonresidential construction products. If those businesses come up to the present level of consumer activity, 1984 is going to be a good year."



Sparton Corp.'s sonobuoys (inset) *track foreign subs*

Razorblade electronics.

But Emerson hasn't been idly sitting by waiting for that recovery. Knight has taken advantage of the downturn to build in some new efficiencies. Early last year he consolidated operations involving 17 plants at a cost of nearly $20 million. Those moves, he says, should save Emerson about $35 million annually.

Fred Dusto, chief executive of Harvey Hubbell, Inc., expects the pickup in low-voltage wiring devices, triggered last year by the upturn in housing starts, to spill over this year into his main commercial and industrial markets. But he isn't expecting a change in the fortunes of some important customers. "Steel, coal mining and utilities will be down or flat," he says. Hubbell closed two of its Canadian plants last year because of a continuing decline in demand from Canadian utilities for its electrical porcelain products.

Less diversified than most other electrical equipment makers and burdened with problems in Mexico, Square D reported its second consecutive earnings decline last year, reversing several years of strong growth. Square D's circuit breakers and other power distribution and control devices encountered declining sales and considerable price erosion because of weak nonresidential construction markets. President Robert King now says he's "cautiously optimistic about a broad construction recovery," although that is not likely to include the key utility segment.

But in 1983 Square D increased its emphasis on electronics with its purchase of Topaz, Inc. Topaz makes devices that protect computers from power disturbances—a field King thinks quite promising. "On one side, industry is trying to improve its efficiency, and on the other side, utilities are pressing their systems to get more out of them," he says. "We benefit both ways."

Johnson Controls finished fiscal 1983 in September with record earnings of $59 million, thanks to strong sales of auto batteries. But orders for industrial facilities management systems for monitoring fire safety and security as well as energy use are also improving, says CEO Fred Brengel. "Very few industries won't be better off in 1984 than they were in 1983, though you can't quantify how much better," he says.

Stepped-up defense orders in 1983 were a boon to several companies, including Emerson, General Electric, Westinghouse and Sparton Corp. The Jackson, Mich.-based Sparton, also not on the Forbes list, gets about 56% of its sales from defense electronics products like sonobuoys, which are used by the Navy to track foreign submarines. The devices last only about two hours before they sink and have to be replaced, so it's a nice razorblade business for Sparton. A 15% increase in demand for them last year helped boost Sparton's sales 19%, to $142 million. "Russian subs are a threat 365 days a year," says Sparton CEO John Smith. His company is also a major supplier of auto horns to such customers as General Motors and Chrysler.

Yardstick-topping Tyco Laboratories got much of its growth by acquiring and turning around troubled companies. Its growth has also come from capital gains from abortive takeover attempts such as its $22 million profit on the sale of its 30% investment in Cutler Hammer in 1978. But the company may be changing direction.

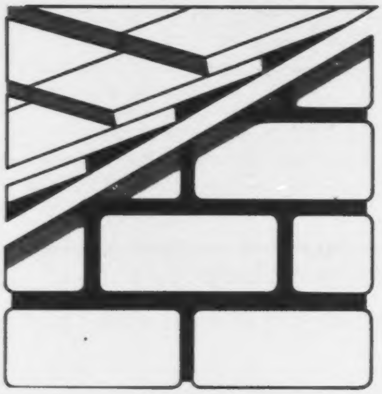
Following the death of former Tyco Chairman and CEO Joseph Gaziano a little more than a year ago, new CEO John Fort sold Tyco's 503,000 shares of Allied Corp.'s $12 cumulative preferred stock for $54.3 million. He told FORBES he has also decided not to increase Tyco's 46% stake in Heinicke Instruments Co. or its 29% interest in Muirhead, Ltd., a British electronics company.

"For the short term at least, we're becoming more operations-minded than acquisitions-oriented," says Fort. Recently he has also sold some divisions of Tyco's Ludlow Corp. that were outside Ludlow's principal flexible-packaging business.

Tyco gets about 38% of its sales from sprinklers and other fire protection devices. Because they are among the last items to be installed in new buildings, "that business is going to be flat next year, near as we can tell," Fort says. But he is enthusiastic about prospects for his printed circuit boards, which are used by customers ranging from computer manufacturers to utilities. "It's the segment of our business that moves most with the general economy," says Fort, who likes what he sees ahead. "We're looking at very good growth, very good," he says. "Orders are up about 25% over last year. It's a very positive sign." ■

Here it happened. There really was a recovery. Well, anyway, the beginnings of one.

Building materials



By Barry Stavro

"WE'VE HAD A PRETTY GOOD turnaround year. Some of us are sleeping a little better," says Joe Cordell, president and CEO of Jim Walter Corp.

Like any commodity business, the building materials industry is highly sensitive to volume because its plants have a great deal of operating leverage. So when housing starts, triggered by falling mortgage rates, leapt 59%, to 1.7 million, in 1983—a normal year, by more normal standards—much of the building materials business snapped right back.

Since it manufactures partially finished housing and various building materials, Jim Walter's earnings track housing starts like a shadow. After 1978, when housing starts hit a robust 2 million, Jim Walter's earnings hit a record $98 million in 1979. Then, as housing slumped (down to 1.07 million starts in 1982), so did Jim Walter's earnings ($6.1 million in 1982). In 1983 Jim Walter's profits jumped to $70.6 million, with its building products group enjoying a profit swing of $36 million.

This doesn't happen automatically, of course. Cordell had cut Jim Walter's overhead as much as possible, by trimming the work force by 16%, cutting short-term debt and reducing break-even for his building materials group to correlate to 1 million housing starts a year instead of 1.5 million. "We came out of this a much leaner and stronger company," Cordell says.

Gypsum wallboard is used for interior walls in new housing, and it's also a product used at a fairly early stage in construction. As a result, United States Gypsum Co., traditionally the performance leader in this market with a commanding 35% share in wallboard, saw its quarterly earnings per share in 1983 climb from 46 cents to 95 cents to $1.68 in the third quarter. For nine months USG's net income was up 83%. Along with it have come some of those inflationary price hikes Federal Reserve Chairman Paul Volcker is worrying about. Says Eugene Miller, USG's senior vice president for corporate planning: "Our wallboard plants are operating at 97% capacity. When the supply/demand equation gets close, it's an opportunity to regain eroded margins." USG's gypsum wallboard prices rose 20% in 1983. But USG has earned it, having spent $277 million in the past five years to boost its wallboard capacity 25% and having reduced break-even costs 30% in the past two years.

In 1983 1.7 million homes were built.
Half of the industry is back to normal.

Other companies that managed to hang on to dominant market share during the recession did well, too. Like Jim Walter, Owens-Corning Fiberglas showed a modest gain on the Profitability Yardsticks during the latest 12 months. With 60% of the capacity for fiberglass insulation, Owens-Corning was able to boost prices occasionally even in the bad years of 1981 and 1982. As demand recovered, Owens-Corning boosted prices on the rising sales volume. Its profits for 1983 should more than double 1982's $29.7 million.

Under the welcome protection of that price umbrella, even a weak contender in fiberglass like CertainTeed Corp., which lost $17 million in 1981 and 1982, turned in a nine-month profit in 1983 of $25 million. CertainTeed CEO Michel Besson credits heavy capital spending and strenuous efforts to increase productivity. "If you compare our 1978 output per employee," he says, "we're up 40% in fiberglass insulation."

Some portions of the industry were slow to feel the effects of an improved housing market. Take a look at the latest 12-month results for the lumber industry. Huge oversupply in plywood dampened prices. Limp overseas markets, combined with a trend to downsize new homes—thus requiring less wood—didn't help. Still, lumber demand and prices have picked up (spruce fir lumber prices per 1,000 square feet hit a low of $140 in late

1981, bounced back to $235 by mid-1983 and have since backed off again). For longtime industry profit-leader Weyerhaeuser, that boosted nine months' earnings 24%, to $135 million. But as Weyerhaeuser's sorry 3.4% return on equity for the latest 12 months attests, there is still a long way to go before the company, with its huge capital investment, is back on track.

In the long-suffering cement industry, most firms continued to sink like a stone. Lone Star Industries, the biggest producer in the country, had boasted on the cover of its 1982 annual report, "Lone Star is Ready." It seemingly had made all the right moves. It had kept maintenance spending up. It had taken advantage of acquisition opportunities over the past five years, tripling its annual capacity to 12.5 million tons. But for 1983 Lone Star will post a record loss of some $2 per share (vs. 5-cent earnings in 1982). Kaiser Cement will also lose about $1 a share.

Part of the cementmakers' problem

Building materials

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Lumber												
Willamette Inds	1	9.9%	5.5%	0.9	1	8.1%	4.7%	2.2%	2	11.1%	3	–4.2%
Weyerhaeuser	2	9.8	3.4	0.4	2	7.6	3.7	2.7	5	8.4	2	–3.1
Georgia-Pacific	3	8.5	2.0	0.6	5	5.9	2.4	0.7	1	11.4	5	–6.3
Boise Cascade	4	8.4	3.8	0.6	3	6.9	4.2	1.7	4	9.4	1	0.2
Champion Intl	5	8.2	3.5	0.5	4	6.0	3.4	1.7	6	6.0	6	–6.5
Louisiana-Pacific	6	6.5	2.7	0.2	7	4.6	2.1	1.9	3	10.8	4	–5.2
Southwest Forest Inds	7	1.7	def	1.1	6	5.5	0.5	def	7	5.7	7	–26.4
Medians		8.4	3.4	0.6		6.0	3.4	1.7		9.4		–5.2
Cement and gypsum												
United States Gypsum	1	13.2%	9.7%	0.1	1	9.8%	7.6%	4.5%	4	7.0%	1	10.1%
Moore McCormack Res	2	10.8	1.7	1.0	5	7.5	3.2	1.5	1	12.4	3	0.9
National Gypsum	3	10.4	7.8	0.4	2	8.1	6.4	3.5	3	7.9	2	6.1
Ideal Basic Inds	4	9.1	3.6	1.0	6	6.1	2.8	3.1	5	6.3	6	–4.6
Gifford-Hill	5	8.7	1.2	1.2	3	7.9	4.1	0.6	2	11.9	5	–0.3
Lone Star Industries	6	8.3	def	0.7	4	7.7	1.3	def	6	2.2	4	0.3
Medians		9.8	2.7	0.9		7.8	3.7	2.3		7.5		0.6
Building materials												
H H Robertson	1	18.7%	12.5%	0.1	1	15.2%	11.2%	3.4%	2	10.7%	2	19.4%
Vulcan Materials	2	18.6	10.2	0.2	2	13.6	8.0	5.9	4	9.7	5	10.8
PPG Industries	3	13.9	12.1	0.3	3	10.4	8.9	5.8	7	8.1	4	10.8
Ceco	4	11.8	9.1	0.2	4	9.7	7.6	2.6	5	9.2	3	16.8
Sherwin-Williams	5	11.4	15.2	0.5	6	7.7	10.7	2.7	3	10.2	1	19.8
DeSoto	6	10.8	13.9	0.2	5	9.0	11.5	4.9	15	3.2	6	8.7
SCM	7	9.2	3.0	0.5	7	7.2	3.4	0.9	10	6.3	7	3.8
Owens-Corning Fbrgls	8	8.8	9.8	0.5	8	7.2	7.3	2.5	1	14.2	9	–4.6
Armstrong World Inds	9	8.3	9.1	0.2	9	7.1	7.6	3.8	11	5.8	8	1.4
Jim Walter	9	8.3	10.2	1.0	10	6.1	6.8	3.5	8	7.9	10	–6.4
Crane	11	7.1	def	0.6	12	5.5	def	def	14	3.7	11	–13.1
Manville	12	3.3	9.4	0.5	13	4.3	6.8	5.6	6	9.0	12	–19.8
CertainTeed	13	0.6	8.2	0.4	14	2.8	7.1	2.8	12	5.2	14	–45.9
Evans Products	14	def	def	1.8	11	5.5	def	def	9	7.8	15	P–D
GAF	15	def	def	0.9	15	def	3.2	0.1	17	–5.0	15	P–D
Bird	16	def	def	0.7	16	def	def	def	13	3.7	15	P–D
Masonite		**	9.8	0.1		**	8.7	3.8	16	1.6‡	13	–22.7‡
Medians		8.6	9.4	0.5		7.2	7.3	2.8		7.8		–4.6
Building equipment												
Dover	1	25.2%	16.7%	0.1	1	22.3%	15.5%	7.5%	1	18.4%	1	19.4%
Masco	2	21.6	16.9	0.7	2	12.9	11.4	9.5	2	15.9	2	13.5
American Standard	3	17.7	8.5	0.4	3	12.8	6.4	2.4	4	6.0	4	10.2
Trane	4	11.9	9.1	0.5	4	9.7	7.1	2.4	3	12.5	5	10.1
Scovill	5	10.4	12.9	0.7	5	8.3	9.8	3.2	5	5.4	3	10.3
Butler Manufacturing	6	9.2	def	0.2	6	8.2	0.2	def	6	5.0	6	–4.9
Medians		14.8	11.0	0.5		11.3	8.5	2.8		9.3		10.3
Industry medians		9.2	8.0	0.5		7.6	6.4	2.6		7.9		–0.1
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. def: deficit. **Not available; not ranked.

in 1983 was in the uneven nature, noted above, of the housing turnaround. In the first wave of a recovery in new housing, developers build on lots in existing housing divisions. Only in the second or third wave do new curbing, sidewalks or sewers, all requiring cement, have to go in. But housing provides only one-third of the cement industry's business. The other two-thirds are commercial construction and roads, bridges and other infrastructure needs.

Here, too, there was a lag in 1983. Office construction was soft through the first nine months, which helped keep prices down. And despite the much publicized need for better maintenance of the federal interstate highway system, spending on repairs has not increased dramatically.

Result: At 69 million tons in 1983, cement consumption was no higher than 1981 levels. "When you're running cement mills at 70% capacity, there is no way in the world you can make money," says Ted Baker, president of Florida Rock Industries, a smallish (estimated 1983 sales: $180 million) but profitable cement producer based in Jacksonville. Florida Rock's 1983 earnings should jump 25%. Why? Since cement is so heavy and costly to transport, it is primarily a regional business. Nearly 60% of Florida Rock's sales comes from a healthy Florida market, and it didn't hurt that 55% of 1983's housing starts were in the South. So Florida Rock operated at more than 80% of capacity in 1983.

Don't think Lone Star has abandoned hope simply because it ran in the red while most other building materials companies were rebounding nicely. "As modest as it was, 1983 saw the first year of recovery," says Carmine Muratore, Lone Star's executive vice president. "We think the next three to five years will be very good for our business."

Why? Well, cement prices actually turned up in the third quarter (Lone Star showed a narrow profit) with the first upticks in nonresidential spending, and Muratore expects public spending for the well-publicized infrastructure problems to pick up at long last. The Portland Cement Association expects cement consumption to pick up 10% in 1984, which would be enough to nudge most cement companies into the black.

Just how much pent-up demand for housing remains suppressed by still high mortgage rates can be seen in the outstanding gains in latest 12-month return on equity figures in the Yardsticks for consumer paint producers like DeSoto and Sherwin-Williams (or the Glidden division of SCM). Most of that fresh paint is going to cover old housing, not new.

The best news for the building materials industry is that even if housing starts are flat at around 1.7 million starts this year, as expected, this should be a better year for earnings because the number of housing completions will rise perhaps as much as 14%, from 1.38 million in 1983 to 1.6 million, according to the National Association of Home Builders. That's good news for companies whose products, such as roofing shingles or plumbing, are used in the later stages of housing construction.

Masco Corp., for example, the nation's leading faucetmaker (with 33% of the market), turned in an impressive 16.9% return on equity for the latest 12 months on the industry Yardsticks. Masco President Richard Manoogian says 1984 "should be a better year for us because faucets are among the last products to go into a home." Masco's nine-month 1983 earnings increased 27%, and analysts peg the company's 1984 earnings at $2.75 per share, up from $2 in 1983. Manoogian can afford to be optimistic, of course. He has his bases covered, with 60% of Masco's building products going not for new construction but to the rebounding replacement and remodeling market.

Another bright spot is the $30 billion do-it-yourself market, which has grown 13% a year since 1970.

The critical variable remains mortgage rates. As long as they go no higher than 13%—a reasonable prospect in this election year—building materials should continue to rebound.

The stock market has been expecting it. Many building materials stocks doubled during the 1982-83 market surge. While many fell back about 15%, they are still considered to be fully valued against their likely improved 1984 earnings. Most building material stocks move in anticipation of interest rate swings, not earnings. ■

The asbestos albatross

At last count some 26,000 lawsuits claiming death or injury related to the use of asbestos products have been filed in U.S. courts. Many of them are multiple suits against Jim Walter, Owens-Corning, GAF, Armstrong World Industries and, of course, Manville Corp., which sought shelter from all the unknowns of asbestos liability under the bankruptcy law. Estimates of the cost of settling those claims range wildly—anywhere from $1 billion to $15 billion. It's a judicial nightmare.

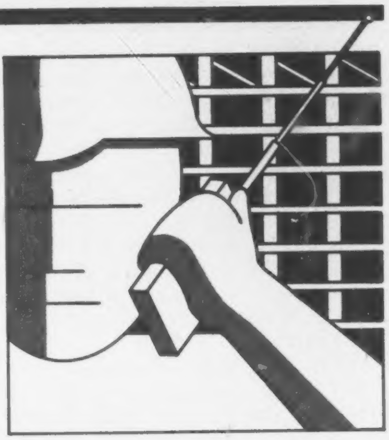
One bill in Congress to cope with the situation, introduced by Representative George Miller (D–Calif.), chairman of the Labor Standards subcommittee, would have the Labor Department act as the clearinghouse for asbestos claims. The purpose is not only to speed up adjudication but also to get more money to asbestos victims by eliminating the need for attorneys. This is certainly a worthy goal. Of the asbestos lawsuits that have been settled to date, a third of the total costs have gone for legal fees.

Under Miller's proposal, totally disabled victims would receive 80% of the national manufacturing average weekly wage on the date they first became disabled (in November 1983 that would amount to $280 per week), plus medical benefits. The money would come from a pool contributed to by asbestos manufacturers (and their insurers) and vary according to a company's asbestos "exposure."

James Kynes, Jim Walter Corp.'s senior vice president and legal counsel, has no quarrel with the basic concept of the bill. But he objects strongly to several wrinkles, including its omission of federal contributions, despite widely acknowledged asbestos-related injuries suffered by workers at Navy shipyards during World War II and Korea. Kynes also objects to the Miller bill's notion that it be a no-fault plan—that is, workers would need to prove only that they are disabled. (Currently, workers must prove negligence on the part of manufacturers in order to win their claim.) The no-fault provision, Kynes and others believe, could drive total costs for the program out of sight.

One thing is certain: The asbestos problem is not going away. A year ago Jim Walter faced 11,600 asbestos-related lawsuits. The company now faces 15,600 such suits.—B.S.

It took a lot of fancy footwork, but most of the big construction firms did pretty well in 1983.



Contractors

By Roger Neal

"IN A RECESSION this industry noses over first and comes out last," says William McMurren, president of Boise-based Morrison-Knudsen. That's true so far as backlogs are concerned. But the manner in which McMurren and some of his competitors dealt with the problem was a subject for admiration in 1983. Construction was soft, both at home and abroad, and the once lucrative OPEC market has shrunk drastically. And yet, from a profits point of view, this industry came through the year remarkably well. The Yardsticks tell the tale. Order-starved contractors have actually kept pace with other industries in the recovering economy. How so? The better-managed companies have been simultaneously broadening their technological specializations and slashing costs.

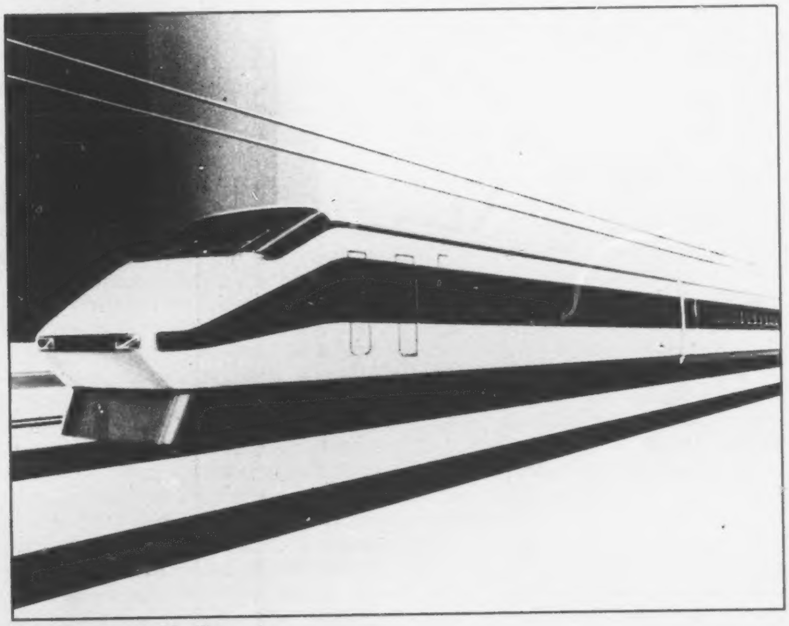
Granted, this can't be accomplished overnight. If your specialty is large power plants, chemical plants and oil refineries, like Dravo, for example, or like Fluor, you're going to be hurting right now.

But most big contractors are currently earning close to their five-year return on equity, mainly because they diversified their customer base. The leading practitioner of this approach is Pasadena, Calif.-based Parsons. Parsons Chairman William Leonhard expects the company to post its 12th consecutive earnings increase in 1984. This is especially impressive given Parsons' high 25.3% return on equity in the latest 12 months—twice as good as the contractor industry median return on equity of only 12.5% in the same period and 12.6% for all industry. Parsons has earned that handsome return not just by diversifying, but by running a tight, low-overhead operation both in good years and in bad.

Though megaprojects are scarce, there are some small profitable niches in the industry that are looking better. Recent federal actions, for example, have provided a number of nuclear waste storage and cleanup projects like Morrison-Knudsen's uranium mine tailings cleanup contract, which could extend to 23 sites in half a dozen states. Another nice piece of business will be the $3 trillion that the Associated General Contractors of America says will be needed to renovate the nation's infrastructure—ports, highways, bridges and airports—over the next 18 years. Funded by the nickel-a-gallon gasoline tax surcharge that was passed in 1982, the states are likely to start spending that federal money this year.

Up until recently, small companies have taken advantage of these market segments because the national contractors had bigger fish to fry. Take little San Bernardino, Calif.-based Kasler Corp. (1983 revenues, $105 million). Kasler, a regional heavy construction company that deals primarily in civil engineering work for government—everything from highways to space shuttle launch facilities—has managed a five-year average return on equity of better than 30%. But with little else for the large firms to fall back on, competition for these small projects will be stiff.

Increasingly, large contractors are becoming generalists, and none has been more successful at it than Par-



Fluor's proposed bullet train
High hopes for a new expertise.

sons. With jobs in such diverse fields as petroleum processing, nuclear waste storage, mass transit and defense, both in the U.S. and 34 foreign countries, Parsons can shift resources to wherever the work is, often bringing higher-powered talent and more financial muscle to bear on a project than competitors could offer. Parsons isn't held hostage by an ailing industry here or a politically unstable region there.

Take Morrison-Knudsen, a giant company whose solid 12.5% return on equity makes it another strong generalist. Says CEO McMurren: "Diversification by geography and discipline offers us great flexibility that many of our competitors simply don't have."

Others are trying to broaden their specialties. Fluor has high hopes for the proposed $1.25 billion bullet train between Los Angeles and San Diego. If funded, the project will help Fluor develop an expertise in mass transit.

Of course, 1983's surprisingly good profit showings were not achieved easily. Fluor counted on a $40 million capital gain from sale of an office building. Morrison-Knudsen had to cut back roughly 10% of its administrative staff. Fluor's 1977 acquisition of Daniel Construction, a nonunion company, has been a big help in holding down costs and getting additional business. Daniel now accounts for about 31% of backlog.

The large engineering and construction firms are also finding that an ability to help customers find money is a potent lure. When Standard Oil of California began work on its 47-megawatt geothermal project in California's Imperial Valley, it first approached Southern California Edison to see if it was interested in owning as well as operating the $125 million plant. Edison declined.

Dravo of Pittsburgh got the contract to build the plant by agreeing to take over the project when it was completed. Dravo could do so because, with its faster depreciation schedule and eligibility for a 15% energy tax credit not allowed utilities, it could arrange financing on more favorable terms than the California utility could.

Other contractors have concocted similar schemes or are contemplating doing so. Blount has been negotiating with Oyster Bay, N.Y. to build and finance a $100 million waste-to-energy facility.

Smallish ($70 million revenues) Ultrasystems (FORBES, *Oct. 24, 1983*) has an assortment of innovative projects that it builds and operates, such as its $35 million North Dakota barley-to-alcohol conversion plant. Leonhard of Parsons says, "We'll consider these projects in any field where we feel we have a technological advantage." That apparently includes mass transit: Parsons recently offered to finance and build part of the Houston metro. Unfortunately, the project was nixed by the voters.

But the builder-owner-operator solution does not appeal to everyone. McMurren of Morrison-Knudsen is one executive who doesn't like the idea. "We've historically avoided competing with our clients," he says. "I've heard a lot of talk about this, but it's not the salvation for a weak market." What is? In McMurren's opinion, salvation is in just what M-K has been doing: keeping costs under control and scraping around for small jobs. Not brilliant, just bright. And it seems to work. ■

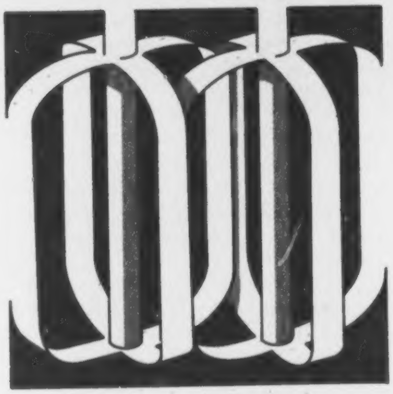
Contractors

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Heavy construction												
Parsons	1	27.5%	25.3%	0.1	1	24.2%	23.2%	4.6%	11	6.2%	4	19.5%
Turner Construction	2	24.8	25.4	0.6	2	21.4	17.4	0.6	4	20.5	2	21.8
Blount	3	20.2	21.7	0.5	6	13.1	14.9	2.5	7	13.5	6	16.3
CBI Industries	4	20.1	12.4	0.0	3	16.2	10.0	5.1	9	10.8	9	10.9
Fluor	5	18.4	5.6	0.6	4	14.7	5.5	1.7	2	26.0	8	12.4
Fischbach	6	16.7	17.0	0.4	5	13.3	13.3	1.9	8	12.0	7	12.7
Dynalectron	7	16.1	10.9	0.3	7	12.8	8.7	1.8	6	14.9	1	32.7
Morrison-Knudsen	8	15.6	12.5	0.4	8	12.6	8.6	1.8	5	17.7	5	16.4
Perini	9	13.6	14.2	0.2	9	10.9	9.7	1.5	3	22.1	3	20.5
Raymond Intl	10	9.6	9.9	0.4	10	8.7	9.1	1.0	1	26.3	10	–5.4
Dravo	11	2.7	def	0.4	11	4.4	def	def	10	8.6	11	–25.1
Medians		16.7	12.5	0.4		13.1	9.7	1.8		14.9		16.3
Home building												
Pulte Home	1	32.3%	49.1%	0.2	1	17.0%	26.1%	6.2%	1	33.3%	1	39.4%
Centex	2	18.3	13.6	0.2	3	8.3	8.3	4.5	3	14.7	2	19.3
U S Home	3	14.2	10.7	0.7	4	7.5	5.4	2.9	2	17.0	3	16.9
Ryan Homes	4	11.8	15.1	0.2	2	10.3	12.2	3.0	4	11.3	4	–0.8
Del E Webb	5	3.7	0.7	0.8	5	5.3	3.9	0.2	6	2.0	6	–13.5
Kaufman & Broad	6	1.7	0.9	0.9	6	3.0	4.0	1.0	5	6.3	5	–6.8
Medians		13.0	12.2	0.5		7.9	6.9	3.0		13.0		8.1
Industry medians		16.1	12.5	0.4		12.6	9.1	1.8		14.7		16.3
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
def: deficit

You can let the washing machine leak only so long before you break down and buy a new one. That, in part, explains the surge of 1983. But what happens next?



Household goods

By Paul B. Brown

THESE ARE GOOD TIMES for the companies that make washing machines and stoves, bleaches and scouring powder. As William F. Andrews, chairman of Scovill Inc., puts it, "The baby boom is getting married, and the divorce rate is increasing." Divorce is good news? Sure, says Andrews: "One person takes the household, and the other has to go out and buy new appliances and furniture."

A new stove and a new washer

You need them when you get married and divorced.

In short, while every marriage means a new household, every divorce does, too. And both are on the rise in the U.S. In 1962, if you had asked 1,000 people at random, you would have found 8, maybe 9, who had been married that year. In 1982 that number was close to 11, according to the National Center for Health Statistics. Divorces? In the last 20 years their number has nearly tripled. In 1982 there were 1.2 million divorces. That means more than 1 out of every 10 Americans have been divorced. These days the marriage often wears out before the refrigerator.

Even if it doesn't, of course, the refrigerator would have to be replaced, and that is good news for the household goods industry. The oldest members of the World War II baby boom bought their first appliances between 1969 and 1973—among the best years ever for appliance sales, according to statistics kept by Paul E. Roman, vice president of the Association of Home Appliance Manufacturers, the industry's trade group. They will soon have to replace those initial purchases, since the average life of a household appliance is anywhere from 11 to 15 years, and roughly 75% of sales in this industry are replacement.

Add to that the fact that through three years of recession, consumers, frightened of spending money, kept their old dishwashers, refrigerators and clothes dryers longer than they ordinarily would have. Now they are a little more sure they will have a job and are spending big to catch up. That's why 1983 kept getting better and better, and 1984, says Maytag Co. President Daniel J. Krumm, "should be a good, solid year." Krumm, whose company has led the Forbes Profitability rankings in household goods every year since 1974, mentions two other bright spots:

- New homes. That's where about 20% of industry sales comes from, and 1983's 1.7 million new housing starts were up 59% from 1982. They are expected to be strong again in 1984 *(see p. 199).*
- Lower interest rates. "In this last quarter we had the highest order rate for household goods we have ever had," adds Scovill's Andrews, whose Hamilton Beach line of appliances, among other products, helped the company place sixth in the Forbes appliance category. "What mainly held people back early in 1983 was the question of whether or not they would have a job," Andrews says. "Now there is enough money out there, enough savings and a lot of pent-up demand."

Not that 1984 will match 1983. Too much catching up has already been done. For example, Maytag's Krumm is predicting that industry sales of automatic washers, which climbed about 13.5% in 1983, will be up another 7% this year. Dryers, up 20% in 1983, should increase by 11.8%. Dishwashers, which cleaned up with 40% gains in 1983, should be up another 18.5% in 1984, he says. Electric range sales were up 40% in 1983 and should climb another 18% this year. Microwaves, the darling of the industry recently, were up 38.8% in 1983 and should be up 11.2% in 1984. "As you can see, we are expecting a flattening out this year, but overall it looks pretty good," Krumm says.

"Pretty good" is the operative phrase. This is a mature industry, no question about it. Unit sales have been growing at an average rate of 3.6% over the last two decades. That means once the pent-up demand has been satisfied, further growth for any company has to come out of somebody else's hide. One measure of that is that the industry has been steadily consolidating over the past ten years. Look at Forbes' 26th Annual Report on American Industry for 1974. There are now 20% fewer names in the lists below than there were then, with such famous ones as Westinghouse Electric and Admiral among the missing. The major appliance division of Westinghouse Electric was acquired by White Consolidated and Admiral is now a division of Magic Chef.

Along with consolidation came diversification of the survivors. Maytag is a good example. For years it manufactured only washers, dryers and dishwashers. Now it has moved into stoves and ovens with the acquisitions of the Hardwick Stove Co. and gas and electric grillmaker Jenn-Air in 1981 and 1982, respectively. Clorox Co., which made only its well-known bleach when it was divested by Procter & Gamble in 1969 pursuant to an FTC order, now sells such products as Liquid-plumr, Kingsford barbecue products and Hidden Valley Ranch salad dressings. Chairman Calvin S. Hatch says there will be more acquisitions. "If I had my preference, I'd develop internal products successfully, but the key word is successfully. In the grocery business, you know how hard that is."

In fact, Clorox, which placed third in the housekeeping products division, is now moving beyond the supermarket shelf. In 1981 it acquired Olympic Stain Co., a leading maker of exterior stains and paints, and in July it acquired the U.S. rights to Lucite paints from Du Pont. Similar expansions, either through acquisition or home-grown products, are planned by Economics Laboratory (FORBES, *July 18, 1983*), American Home Products and Procter & Gamble. When it comes to growth, the computer business it's not. But these days, home sweet home is not bad, either. ■

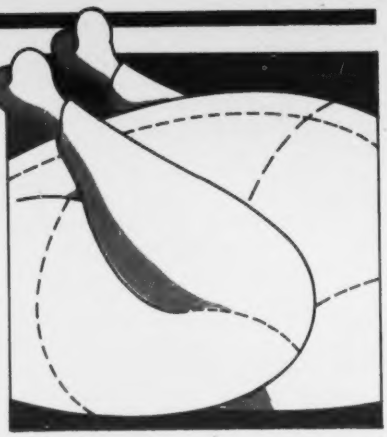
Household goods

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Appliances												
Maytag	1	23.7%	27.5%	0.1	1	22.1%	23.7%	9.5%	5	9.4%	5	6.2%
General Electric	2	20.3	19.4	0.1	2	18.3	17.7	7.3	3	9.9	1	12.0
Whirlpool	3	17.5.	19.3	0.1	3	16.1	18.0	6.7	6	6.2	3	11.7
White Consolidated	4	11.7	8.5	0.4	5	8.5	7.2	2.3	4	9.4	8	–1.3
Magic Chef	5	10.6	18.5	0.4	4	8.9	13.3	3.9	1	20.2	2	11.9
Scovill	6	10.4	12.9	0.7	6	8.3	9.8	3.2	7	5.4	4	10.3
Allegheny Intl	7	8.8	def	0.8	7	7.7	2.9	def	2	14.1	6	1.8
Hoover	8	7.7	12.7	0.1	8	5.0	10.2	3.3	9	4.4	7	1.4
Zenith Radio	9	4.1	5.9	0.5	9	4.5	5.5	1.4	8	5.1	9	–10.3
Singer	10	def	0.1	0.7	10	1.7	3.0	0.2	10	2.7	10	D–D
Medians		10.5	12.8	0.4		8.4	10.0	3.3		7.8		4.0
Housewares, furnishings												
Insilco	1	14.1%	13.4%	0.4	2	9.2%	9.1%	4.9%	2	10.9%	3	6.3%
Stanley Works	2	13.9	11.2	0.2	1	11.8	9.7	4.7	4	10.3	2	9.1
Black & Decker	3	9.4	9.5	0.6	3	8.4	6.6	3.8	3	10.9	4	–2.3
Roper Corp	4	9.4	14.9	0.5	4	7.2	11.0	2.7	5	3.9	1	9.9
Mohasco	5	1.9	3.0	0.4	6	2.8	3.3	1.0	6	1.3	5	–19.8
Toro	6	def	1.4	0.6	5	4.8	4.8	0.8	1	13.0	6	P–D
Talley Industries	7	def	7.6	0.4	7	1.7	7.2	2.6	7	–3.0	6	P–D
Medians		9.4	9.5	0.4		7.2	7.2	2.7		10.3		–2.3
Housekeeping products												
American Home Products	1	33.9%	34.7%	0.0	1	33.4%	32.4%	12.7%	3	10.6%	1	12.5%
Procter & Gamble	2	19.7	20.1	0.2	3	15.4	15.7	7.0	2	11.3	2	11.8
Clorox	3	18.4	23.1	0.3	2	15.4	17.3	7.7	6	–2.0	3	9.7
Colgate-Palmolive	4	14.3	15.2	0.2	4	11.7	12.6	4.1	5	7.5	5	2.5
Economics Laboratory	5	12.3	def	0.4	5	10.1	def	def	1	13.0	6	1.7
Scott Paper	6	10.2	6.2	0.3	6	7.8	5.2	4.0	4	9.6	4	6.8
Medians		16.4	17.7	0.3		13.6	14.2	5.6		10.1		8.3
Industry medians		10.6	12.7	0.4		8.5	9.7	3.8		9.4		6.2
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. D–D: deficit to deficit. def: deficit.

In 1983 the government gave grain to farmers so they wouldn't plant as much. That plowed profits under for lots of companies.



Food processors

By Jeff Blyskal

SEVERAL MAJOR CHANGES in this industry in 1983 had their origins in Washington. Consider the payment-in-kind (PIK) program, which handed farmers excess government grain to sell, thereby reducing the incentive to plant. The idea was to reduce stockpiles. With the help of a record drought, the scheme was dramatically effective. The corn crop was off by 30%, and wheat output dropped 16%.

This raised prices accordingly and played havoc with many companies' bottom lines. Iowa-based Pioneer Hi-Bred International, Inc. derives 82% of sales and 99% of profits from seed corn in a normal year. In the vital matter of return on equity, it fell from number one among agricultural commodities companies to number three. PIK cut Pioneer's 25% ROE for 1982 almost in half.

Meatpacking plant in Texas

What's squeezing the meat companies?

High prices for farmers mean high raw-materials costs and pinched margins for grain processors like Archer Daniels Midland and A.E. Staley Manufacturing Co. That's a big reason ADM's return on equity dropped from 12.2% in 1982 to 8.5% in 1983. Staley's, meanwhile, fell from 12.6% to a sad 1.3% in the same period.

Thanks again to PIK and the steadily rising grain prices it spawned, grain merchandisers—including privately held companies not on our list, like Cargill and Continental—had only a fair year. "A volatile grain market helps the merchandising business," explains Charles (Mike) Harper, chairman of Omaha-based ConAgra. If farmers know low grain prices will be rising, they hold back supplies. "Merchandisers have been offering railcars and barges to move grain for practically no profit, just to keep them afloat or moving," says Rodney Cerny, an analyst at First Mid America in Lincoln, Nebr.

Because of today's high prices, many analysts are predicting a record corn crop next summer. Farmers' natural instincts are to take advantage of a strong market and plant as much as they can. This should benefit seed companies like Pioneer and DEKALB AgResearch Inc., as well as makers of agricultural inputs—chemicals, fertilizers, herbicides. ConAgra has a strong position in those markets. The company's chain of 70 United Agri Products outlets sells farm-related chemicals in 25 states. The company claims to have 15% of this highly fragmented market.

While food processors don't expect a PIK program for corn in 1984, they do expect some kind of PIK program for wheat. Why? PIK came too late in 1983 to affect greatly farmers who had already borrowed money and planted their winter wheat crop. In 1984 they will have a second chance.

Down the food chain, meanwhile, higher corn and feed prices are driving up the cost of raising hogs, cattle and chicken. But as the Yardsticks indicate, this doesn't affect all producers the same way. Tyson Foods, a major chicken producer, managed to top its five-year average for return on equity. So did Frederick & Herrud, a top pork producer. At the same time, most meatpackers posted results that were decidedly below average.

To understand why, a lesson in commodity cycles is necessary. When feed prices are low, costs decline and herd sizes increase. This sends more cattle to market, which reduces prices. Reduced prices spark consumption, which in turn starts pushing prices back up as demand equals supply. Farmers then increase their herds, and the process begins again. Because it takes at least two years for a cow to grow to market size, the production curve is seldom smooth.

Now, for example, there is an oversupply of red meat at high prices. But the PIK program is also driving up grain costs. So packers of fresh meat are in a squeeze. "Our costs are rising while prices are dropping," says John Copeland, chairman of Swift Independent Corp., whose 12-month ROE in 1983 fell 16 percentage points from an admirable 38% in 1982. SIPCO enjoys such high profitability in part because its assets were spun off from Esmark in 1981. That means balance sheet values are lower than those of most competitors.

Beefpackers, of course, don't operate in isolation. At some point consumers get their fill of expensive steaks, and demand shifts to pork and chicken. "With enough time, high grain prices are better for chicken than they are for other meats," explains Don Tyson, who runs Arkansas-based Tyson Foods.

That's because chickens require less feed. Thanks to breeding, better-controlled chicken farming and computer-formulated feeds, broilers grow to a bigger market weight faster (eight weeks) than they did 20 years ago. Result: It takes only two pounds of feed to produce one pound of chicken, half the conversion ratio of the Fifties.

Beef and pork producers are not so lucky, and progress is slow because of longer breeding cycles. Three-and-a-half pounds of feed go into a pound of pork and seven pounds into a pound of good steak on the hoof. Thus every penny rise in the price of feed widens the cost advantage of chicken and pork over beef.

That's why poultry consumption of 53 pounds per capita is almost double what it was back in 1960. Beef consumption is up only 24% over the same period. What about pork? Despite its relative cost advantage over beef, per capita consumption since 1960 is up an embarrassing 0.5%.

What with the vagaries of supply and demand, government intervention and the weather, food processing can be a very difficult business. But even in this environment smart managers can show their stuff. Look at Savannah Foods & Industries, Inc. It is a sugar cane refiner—one of the toughest of commodity businesses—and still manages to top its section of the Forbes Yardsticks.

Government price supports for U.S. beet sugar refiners, tariffs on imports of cane sugar and a resultant advantage for high-fructose corn syrup (HFCS) are all threatening Savannah's business. So how does the $440 million-a-year company post a top-drawer 26.2% five-year return on equity?

"We're probably the closest thing to a Japanese company that you can find," says President William Sprague Jr., who works hard to remain a low-cost producer. Savannah also shuns unions and keeps its workers on salary rather than hourly wage, using a substantial employee stock ownership plan as an added incentive. As a result, productivity was up 10% in 1983, and while other refiners are shutting down facilities, Savannah is running full out.

Savannah is also the dominant sugar company in the growing Southeast. There is little likelihood of competitors from outside the territory moving in because, as in the cement business, transportation cost is critical to sugar. Shipping it beyond a certain radius from the production facility is unprofitable. As a hedge for the future, Sprague is considering production of HFCS. Successful companies don't rest on their laurels.

What about the future of the rest of this industry? Agricultural input companies should benefit when farmers return to the soil. Lower grain prices in the latter half of 1984 ought to help grain processors and take pressure off meatpackers and poultry processors. Meatpackers, meanwhile, will get a boost from putting labor costs back in line. Above all, businesses that have been well managed in the past—like Savannah, Swift, Pioneer Hi-Bred and ConAgra—should adjust best to the future. ■

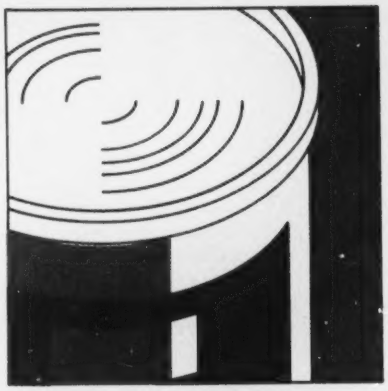
Food processors

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Meatpackers												
Swift Independent	1	28.1%††	22.1%	0.8	1	15.6%††	14.6%	0.8%	5	7.1%‡		**
Idle Wild Foods	2	15.8	7.5	0.3	2	12.6	6.5	0.7	4	10.0	6	8.7%
Tyson Foods	3	15.0	22.8	1.5	7	8.6	10.7	2.2	2	18.4	2	10.8
George A Hormel	4	14.2	9.9	0.3	3	11.8	6.9	1.7	6	5.4	3	10.4
Greyhound	5	14.0	10.3	0.4	4	10.2	8.5	3.6	7	2.5	4	9.8
Frederick & Herrud	6	13.3	20.7	1.0	5	9.3	12.4	0.9	3	12.3	5	9.4
Monfort of Colorado	7	12.8	30.6	0.3	6	9.1	20.7	1.2	1	19.9	1	19.0
Wilson Foods	8	def	def	1.0	8	def	def	def	9	1.8‡	7	P-D
Rath Packing	9	def	def	1.2	9	def	def	def	8	1.8	8	D-D
Medians		14.0	10.3	0.8		9.3	8.5	0.9		7.1		9.6
Agricultural commodities												
Savannah Foods	1	26.2%	35.1%	0.2	2	17.2%	25.4%	5.5%	7	5.7%	2	26.0%
ConAgra	2	23.9	19.8	0.7	3	16.6	15.5	2.1	1	20.3	1	28.7
Pioneer Hi-Bred Intl	3	23.6	13.1	0.1	1	20.5	12.2	8.7	2	15.8	3	15.5
Archer Daniels Midland	4	15.6	8.5	0.4	4	12.4	7.4	2.5	3	13.6	4	14.4
A E Staley Mfg	5	15.1	1.3	0.5	5	10.7	2.2	0.6	5	13.0	5	7.5
Kay	6	13.6	3.0	1.9	7	8.3	4.6	0.2	4	13.2	7	6.8
DEKALB AgResearch	7	10.2	3.5	0.2	9	7.5	2.3	2.4	6	11.0	9	–0.1
Anderson, Clayton	8	10.0	4.8	0.1	6	9.8	5.3	1.9	8	4.9	6	6.9
Central Soya	9	9.5	8.3	0.3	8	7.7	6.9	1.7	9	4.9	8	1.0
Medians		15.1	8.3	0.3		10.7	6.9	2.1		13.0		7.5
Industry medians		14.1	9.2	0.4		10.0	7.2	1.7		10.5		9.4
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
††Three-year average. ‡Four-year growth. P–D: profit to deficit. D–D: deficit to deficit. def: deficit.
**Not available; not ranked.

In one of the stablest of industries, there's a good amount of housecleaning and diversifying going on. It's already paying off at the dawn of what looks like a better year.



Branded foods

By Jeff Blyskal

In a stormy economic sea, here is an island of tranquility: Over the past 11 years and two (or three) recessions, the average annual return on equity for 22 of the diversified branded foods companies listed below ranged rather narrowly between 11.4% and 14.9%. For specialized food companies, the swings in ROE were somewhat more dramatic, between 12% and 18.4%. One glance down the latest 12-month results on the industry Profitability Yardsticks shows little change from five-year averages for most companies.

But there are exceptions. Chairman William Stiritz of Ralston Purina has been pruning the company decisively, and it shows: That 23.8% return on equity for the last 12 months, aided only modestly by stock repurchases, puts him just behind the Kellogg money machine in profitability. In contrast, limelight-loving Quaker Oats' abrupt drop in latest 12-month profitability traces to $62.5 million in writeoffs and losses in its chemical and videogame businesses.

Industrywide there are other developments. What appears to be a long-term trend that shows up clearly on the Forbes Yardsticks: From 1976 to 1978, median five-year returns on equity of specialized food companies ran close to 2 points above those of diversified companies. Since 1981, however, specialized branded food company profitability medians have been running under those of diversified food companies.

Hershey recognized the risks of specialists several years ago, which is part of the reason its results put it back in the number two position. In the commodity panics of 1973, when the price of cocoa beans rose, Hershey earnings dropped about 30% and chopped ROE to about 9%. So the drive since has been to diversify into other food areas, like Friendly Ice Cream restaurants and pasta products under the San Giorgio, Delmonico, P&R and Skinner labels.

Kellogg, too, has been branching out of the increasingly competitive slow-growth cereal market. Now nearly 25% of its sales are noncereal. Over the past decade or so it has put cornflake capital behind Mrs. Smith's frozen pies, Le Shake and Whitney's yogurts and Salada brand teas and foods. It hasn't been easy to come up with food products that are as lucrative as Corn Flakes, Rice Krispies or Sugar Frosted Flakes, although so far Kellogg has been faring remarkably well. However, an increased new product push at present would be costly and could temporarily dampen earnings growth.

Branded foods

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Diversified												
Esmark	1	25.1%	18.5%	0.6	6	14.8%	12.3%	3.5%	24	–5.5%	2	21.8%
ConAgra	2	23.9	19.8	0.7	2	16.6	15.5	2.1	1	20.3	1	28.7
Dean Foods	3	23.0	22.3	0.4	1	16.8	17.5	2.5	6	16.1	3	21.2
General Mills	4	19.4	20.8	0.4	4	15.0	16.1	4.6	10	12.5	7	14.0
H J Heinz	5	19.1	20.6	0.3	5	14.9	16.3	5.9	9	12.8	4	16.8
CPC International	6	18.9	16.1	0.2	3	15.2	13.1	5.3	16	7.5	10	11.2
Nabisco Brands	7	18.9	18.5	0.3	7	13.7	13.5	5.6	17	7.5	9	12.7
Curtice-Burns	8	18.2	19.2	2.4	19	8.8	8.0	1.6	3	18.3	11	10.4
Consolidated Foods	9	17.5	18.6	0.3	11	12.5	13.0	2.6	7	15.2	5	14.9
Pillsbury	10	17.2	16.0	0.6	14	11.4	11.2	3.9	4	18.3	8	13.0

Note: Explanation of Yardsticks calculations on page 38.

Back over in the diversified category, national brands like a Campbell soup, a bottle of Heinz ketchup or a Kraft Velveeta cheese loaf have a reputation for quality, compared to similar products, that protects them against price competition even in a downturn. "Through the recession, higher-end and quality branded products held up much better than commodity-type items," says James Dutt, chairman of Chicago's Beatrice Foods, who is leading a new marketing push after some major housecleaning. Beatrice's 2-point gain in return on equity in the latest 12 months puts it neck-and-neck with the Campbell Soup Co.

Esmark, the $3.3 billion conglomerate, 43% of whose sales come from such foods as Butterball turkeys, Sizzlean breakfast strips and Peter Pan peanut butter, finds itself at the top of our ranking for slightly artificial reasons. In 1980 Esmark sold its entire energy segment, consisting primarily of Vickers Petroleum and Vickers Energy, for a nonrecurring gain of $562 million.

If that extraordinary item were taken out of the results, Esmark's five-year average ROE would be more like 14.5%, ranking it below the median in the number 16 spot.

Such an adjustment would put ConAgra rightfully in the top spot with Dean Foods. Both are the industry standouts by a considerable margin, in part because they have plenty of strong regional brands and some newer national brands. ConAgra has gone for market share through acquisition, becoming an industry leader in flour milling, poultry processing, retail frozen foods with Banquet Foods, shrimp processing and the growing catfish aquaculture market. ConAgra, however, now has quite a mouthful with its latest acquisition, for which it paid $166 million, of Armour Foods' beef and pork processing facilities from Greyhound.

Dean Foods has been equally acquisitive in the dairy area, always paying close attention to such things as dropping customers who don't pay a decent price or who pay bills late, dropping unprofitable product lines like its herring business, trimming labor and pushing higher-profit items like yogurt, where margins run to 5%, vs. just 2% on milk. Annual per capita U.S. yogurt consumption has tripled since 1970 to 2.7 pounds in 1982.

Dean CEO Kenneth J. Douglas has also been lobbying Washington to reduce price supports resulting from government purchases of powdered milk, cheese and butter at prices that

Branded foods

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
General Foods	11	16.5%	15.8%	0.4	8	13.2%	11.6%	3.5%	13	10.0%	12	9.1%
Universal Foods	12	16.3	19.6	0.5	10	12.6	13.9	3.9	2	18.4	17	6.5
Campbell Soup	13	15.0	15.3	0.2	9	12.9	12.6	5.0	12	10.6	16	7.7
Dart & Kraft	14	14.9	15.6	0.2	12	12.4	13.0	4.5	15	7.9	14	7.8
Ralston Purina	15	14.8	23.8	0.4	15	10.9	16.9	5.3	19	7.0	18	5.7
Intl Multifoods	16	14.7	15.2	0.4	16	10.9	11.3	3.1	21	5.2	15	7.7
Beatrice Foods	17	13.1	15.3	0.4	17	10.6	11.8	3.5	14	9.8	19	3.3
Borden	18	12.8	13.3	0.3	18	9.5	9.9	4.3	22	4.6	13	8.3
Federal Co	19	12.8	12.8	0.2	13	11.5	11.6	2.2	8	13.5	21	2.3
IC Industries	20	8.3	4.6	0.8	21	5.5	4.2	1.6	5	16.5	20	3.1
Di Giorgio	21	8.0	5.4	1.0	20	6.2	4.8	0.7	20	5.9	6	14.3
Castle & Cooke	22	5.5	2.8	0.4	22	5.4	3.9	1.1	11	12.4	22	–12.8
Kane-Miller	23	2.3	def	0.7	23	3.3	def	def	23	–3.5	23	–21.9
United Brands	24	def	def	0.7	24	def	def	def	18	7.3	24	P–D
Medians		15.7	15.9	0.4		12.0	12.1	3.5		10.3		8.7
Specialized												
Kellogg	1	27.7%	27.6%	0.0	1	23.6%	25.2%	10.4%	7	10.1%	5	11.5%
Hershey Foods	2	19.5	17.6	0.3	3	14.6	12.9	5.6	1	18.3	2	13.7
Flowers Industries	3	19.0	18.9	0.4	6	12.9	13.3	3.7	2	15.3	3	12.9
Carnation	4	18.0	17.6	0.1	2	15.0	15.1	5.7	9	7.9	6	11.3
McCormick	5	15.7	16.1	0.4	7	12.6	13.3	4.1	3	15.3	7	11.0
Gerber Products	6	15.6	15.8	0.3	5	14.0	13.2	6.0	6	10.6	8	8.8
Quaker Oats	7	15.5	9.5	0.2	8	11.3	7.4	2.3	5	11.2	4	12.2
Wm Wrigley Jr	8	15.0	16.0	0.0	4	14.5	15.5	6.8	8	9.2	9	4.5
Amstar	9	12.8	7.8	0.1	9	9.7	6.5	2.4	12	3.9	10	3.1
Berkshire Hathaway	10	9.4	7.7	0.2	10	9.4	8.0	11.9	4	13.2	1	25.0
Amer Maize-Products	11	8.3	3.2	0.5	11	6.8	3.8	1.1	10	7.7	11	–2.6
Interstate Bakeries	12	def	def	1.7	12	1.1	def	def	11	6.1‡	12	P–D
American Bakeries	13	def	def	0.7	13	def	def	def	13	3.1	12	P–D
Medians		15.5	15.8	0.3		12.6	12.9	4.1		10.1		11.0
Industry medians		15.5	15.8	0.4		12.4	12.3	3.5		10.1		9.1
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. def: deficit.

have almost doubled since 1974. Per capita consumption of milk in the U.S. has declined 12% since 1970, and Douglas blames excessively high prices, along with increased competition in the beverage market.

The Reagan Administration has been holding the line on supports, but Congress late in 1983 refused to cut support prices and thereby eliminate a growing surplus of powdered milk, butter and cheese. Instead, in addition to buying surplus milk, the government will for the first time pay dairy farmers not to produce.

In general, however, there won't be much inflationary pressure from branded foods. Says Art Schulze, executive vice president for General Mills' grocery division: "You won't see serious food inflation. Increases should be somewhere in the area of 3% to 6%."

One exception could be grain-based products like cereal and bread because of tight corn supplies and a likely extension of the payment-in-kind program *(see p. 206)* for wheat. For that reason big grain users like Kellogg, Quaker Oats, Flowers Industries, American Bakeries and Interstate Bakeries could come under some cost pressures.

But premium, quality and convenience foods should benefit from an expected rise in discretionary income. So at Kellogg, grain pressures will likely be offset by frozen dessert gains. Frozen food areas like ConAgra's Banquet and Armour Dinner Classics entrees, Campbell's Swanson and Mrs. Paul's divisions, General Foods' Birds Eye, and General Mills' Gorton's seafoods should do well. Premium products like Kellogg's Whitney's yogurt, Beatrice Foods' Tropicana orange juice and General Foods' recently acquired Entenmann's baked goods should also benefit from the recovery.

Orange juice and yogurt seem to be two especially hot areas with plenty of potential for growth. "Orange juice was always a growth area," says Beatrice's Dutt, "but Procter & Gamble's [Citrus Hill] entry signals that it was an undermarketed area." As for yogurt, producers see evidence of growth potential based on consumption patterns in other countries. While U.S. consumers eat only 2.7 pounds a year, per capita, of the stuff, "European per capita consumption is 10 to 20 times that," says General Mills' Schulze. "I think demand should grow." ■

Ronzoni
Mueller's
Mueller's twists
Mueller's shells

Branded goods on their hard-won shelf space
"The higher-end brands held up much better than commodity-type items."

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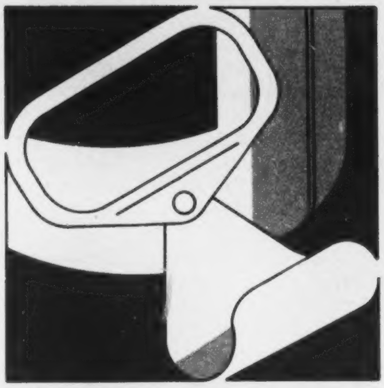
Tennessee
We get down to Brass Tacks.

The top two slots in both the beer and soft drink industries have been a given for years. The action is in the battle for number three.



Beverages

By Laura R. Walbert

BACK IN 1981 FORBES asked Russell Cleary, chairman of acquisition-minded G. Heileman Brewing Co., if he thought Heileman, then number six in industry sales, would ever overtake Anheuser-Busch and Miller. "I don't think that's our objective," Cleary replied quickly. "I would rather be number three in sales with the highest return on equity and best earnings growth in the industry."

Well said. Cleary is closing in on his sales target, helped by the acquisition last March of six Pabst/Olympia brands that already account for 15% of Heileman's shipments. Last year Heileman's $1.1 billion in sales made it the nation's fourth-largest brewer. More important, the company also held its top spot on the Forbes Profitability Yardsticks for the fifth year in a row, with a five-year average return on equity of 31.7%, dipping only slightly to 28.7% in the latest 12 months.

Heileman's strategy to date has been not unlike Yardsticks-topping food companies Dean and ConAgra *(see p. 208)*, which have concentrated on strong regional brands. But now Heileman is planning to expand some of its regional brands into the South, using the new Pabst/Olympia plants in Texas and Georgia. Whether Heileman, which is leveraged relatively highly, can do that without cost to its profitability ranking will be the acid test for Russ Cleary.

Nationwide beer consumption is as flat as yesterday's Bud, partly because of the recession but, more important, because the population has grown older and more health-conscious. Despite a hot summer, beer consumption grew only about 1% last year, compared with the usual prerecession 3% or 4%.

It is the same story elsewhere in the beverage industry. Wine consumption, which had been growing at an annual rate of 6% since the mid-1970s, has slowed to about 3%, with domestic wines suffering particularly large losses as the consumer drank imported wines made cheap by the strong dollar. Consumption of distilled liquor has been declining steadily every year for nearly a decade on a per-adult basis.

Even soft drink consumption has leveled off. It had been growing at a 6% to 7% average annual rate through the 1970s, but has dropped to 4%, as the number of teenage consumers has dropped.

Meister Bräu

Meister Bräu beer from Miller Brewing
Forced to resurrect the cheap brew.

For the industry leaders, of course, this is, next to drug smuggling, still one of the most profitable lines of work in the U.S. But it ain't what it used to be. The beverage producers' performance in return on equity was well below 1982's 18% and 1981's 18.9% median results.

So it's now a zero-sum game, like a poker game, where every winner creates a loser. Making matters worse is the domination of both the beer and soft drink markets by not one but two strong leaders. Anheuser-Busch and Miller Brewing together own 55% of the nation's beer sales, while Coke and Pepsi combined sell 64% of the soft drinks. That leaves the rest of the industry, as Heileman's Cleary testifies, battling for number three, and survival.

That battle has been particularly fierce for brewers. The recent rash of takeovers seems to have subsided for the moment as privately held Stroh secured the number-three spot with the twin acquisitions of F&M Schaefer and Jos. Schlitz Brewing, while Heileman moved into fourth position with the Pabst acquisition. That left Adolph Coors as number five and the new Pabst in the number-six slot.

But a new battle is about to be fought for control of the southeastern states, where a still expanding population and a warm climate have created one of the few growing markets for beer. Colorado-based Coors, stuck in an earnings slide since 1979, invaded the Southeast last year and enjoyed a 25% increase in sales for the first half of the year alone (FORBES, *Oct. 24, 1983*). That was enough to give it the only profitability uptick in the latest 12-month figures for the alcoholic beverages group. Now Heileman, brewer of Old Style, Blatz and Rainier, to name a few, is about to launch its own attack on the southern states, using its newly acquired breweries in San Antonio and Perry, Ga. Says Cleary, "We have very good market share in most of the midwestern and northwestern states—23% on average in our ten largest states. But we have a 2% market share in the Sunbelt states, so there's great potential for our brands in those markets."

Don't expect the top two brewers to take this sitting down. Philip Morris-owned Miller, brewer of Miller High Life, Löwenbräu and Lite, encountered weak sales of premium-priced Miller High Life. Meanwhile sales of

competing popular-priced beers rose as brewers increased distribution and some recession-stricken drinkers traded down from more expensive beers. Jerry Steinman, industry follower, estimates Stroh's Old Milwaukee was up 15%, its Schaefer was up 50% and Heileman's Carling Black Label up nearly 50%. Still without an entry in the popular-price segment even though it accounts for 21% of the beer market, Miller dusted off its old regional Meister Bräu brand, shelved since the mid-1970s. It was a less than impressive response from mighty marketer Philip Morris.

Competition was no less fierce last year in soft drinks, especially in the segment of the market inhabited by teenagers. Seven-Up, despite recent gains in market share, has yet to turn in an operating profit since Philip Morris bought it in 1978. Royal Crown has had its earnings-per-share growth stunted to a five-year average of 4.6% as the Big Two rushed to copy its highly successful decaffeinated and sugarless RC 100, and lowered the price umbrella elsewhere. That price competition was the coup de grace for struggling Dr Pepper, as the latest 12-month figures demonstrate. Although the shrewd 1982 acquisition of Canada Dry, which gave it needed distribution, was beginning to pay off, a sagging Texas economy and price wars caused Dr Pepper to throw in the towel and consider takeover offers from Forstmann Little and Hawaiian Castle & Cooke.

Meanwhile, the bottlers are having their own troubles. It continues to be true that for the bigger operations, like General Cinema, Allegheny Beverage and MEI, all of which rank in the top three slots in the industry Profitability Yardsticks, bottling is still a license to coin money. (General Cinema's phenomenal 12-month figures, let the record show, are mostly because of earnings from its R.J. Reynolds holdings and its sale of a Miami TV station.)

But smaller bottlers are suffering cost increases as new diet, no-caffeine and even no-salt products require a greater variety of packaging.

Aspartame, the newly approved low-calorie sweetener, is one bright spot for the beverage industry. Diet soft drink sales, which are already 20% of the soft drink business and growing at 10% to 12% a year, are expected to grow even faster, as aspartame eliminates that unpleasant aftertaste from diet soda.

Total beverage industry demand will also pick up as the recovery continues and strengthens. But the war will continue. "There's no question that some brands are going to fall by the wayside," says Brian Dyson, president of Coca-Cola U.S.A. "There's just not enough room on store shelves for all the different brands. But those companies that shrewdly execute their marketing strategy, sustain their products from plant to grocers' shelves, and support a strong distribution system will survive."

That may spell opportunity for the new Seagram brand mixers, created by the Coca-Cola Bottling Co. of New York. First test-marketed in late 1982, the mixers, including tonic water, club soda, seltzer and ginger ale, are already the number two brand of mixer in New York, says Jerome Will, head of the project for Coca-Cola of New York. And it will take Seagram mixers nationwide using not only the strong Coke distribution network, but bottlers of any noncompeting soft drink, including Pepsi, RC Cola, 7UP. But for mom and pop it looks like time to cash in the chips and sell out to the highest bidder. ■

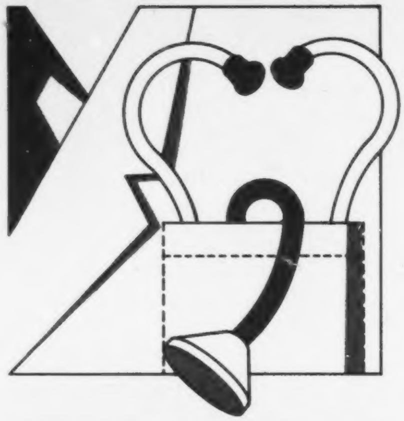
Beverages

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Alcoholic beverages												
G Heileman Brewing	1	31.7%	28.7%	0.8	1	21.9%	14.5%	5.1%	1	29.2%	1	29.4%
Brown-Forman Dist	2	22.9	21.6	0.1	2	17.8	18.5	10.3	3	15.0	2	25.6
Anheuser-Busch Cos	3	20.0	18.7	0.4	3	11.7	11.2	5.9	2	18.7	3	21.7
Seagram	4	13.5	8.7	0.3	4	10.0	7.3	9.6	6	4.1	4	21.6
National Distillers	5	9.8	4.4	0.2	6	8.1	4.5	2.3	5	6.3	6	–2.4
Adolph Coors	6	9.0	10.8	0.0	5	8.2	9.6	8.0	4	10.2	5	0.9
Pabst Brewing		**	**	**		**	**	**		**		**
Medians		**16.8**	**14.8**	**0.3**		**10.9**	**10.4**	**7.0**		**12.6**		**21.7**
Soft drinks												
General Cinema	1	29.2%	54.3%	1.6	4	15.8%	22.0%	10.1%	6	14.2%	2	24.6%
Allegheny Beverage	2	29.0	35.3	3.8	5	14.0	10.2	2.1	2	27.5	3	23.9
MEI	3	28.5	27.1	0.9	3	17.2	15.4	6.3	1	27.8	1	27.5
Coca-Cola	4	22.2	19.9	0.2	1	20.2	16.4	8.2	7	12.8	5	9.9
Dr Pepper	5	19.2	5.9	0.8	2	19.9	6.8	1.8	3	17.5	8	3.5
PepsiCo	6	18.3	14.7	0.5	6	13.2	10.4	3.2	4	17.3	6	8.7
Wometco Enterprises	7	15.7	14.3	0.8	7	10.6	8.9	5.6	5	16.0	4	10.9
Royal Crown Cos	8	14.3	14.1	0.5	8	10.6	10.7	3.4	8	8.6	7	4.6
Medians		**20.7**	**17.3**	**0.8**		**14.9**	**10.6**	**4.5**		**16.7**		**10.4**
Industry medians		**19.6**	**16.7**	**0.5**		**13.6**	**10.6**	**5.8**		**15.5**		**16.3**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
**Not available; not ranked.

The end of cost-plus reimbursement is going to stand this booming industry on its ear—but not in quite the way you might expect.



Health care

By Anne Bagamery

PICTURE AN INDUSTRY that has grown to gargantuan size in two decades on cost-plus sales and the heavy leverage they allow. Now gradually take away cost-plus by act of Congress. What do you get? Moans, groans and screams of pain? No, cheering.

That's a thumbnail sketch of what's going on in the $300 billion health care industry these days. The four largest hospital management companies—Hospital Corp. of America, Humana, American Medical International and National Medical Enterprises—each boast over $1 billion in sales, better than 25% a year sales and earnings growth, above-average profitability and huge debt loads. Their spectacular track records were made possible by that remnant of the Great Society, liberal health insurance.

Houston-area MediClinic

For hospitals, the biggest change since Lister.

With health care costs now eating up 10.5% of the gross national product, Congress stepped in with new Social Security legislation that took effect in October and changed the Medicare-Medicaid reimbursement guidelines from a percentage of costs incurred to a fixed amount per procedure. That, of course, neatly shifts the onus for cost control to the hospitals.

Meanwhile, corporations and other group buyers of health insurance are instituting their own cost controls, in the form of preferred-provider contracts—group plans that authorize full payment for health care only to certain low-cost providers.

Are the for-profit hospitals ready for this? "Very few health care companies can tell you now what it costs to deliver specific services," says Richard Eamer, chairman of $2.1 billion (sales) National Medical Enterprises, the fourth-largest publicly owned hospital chain. "That will have to change."

So why aren't Eamer and his brethren at the other hospital-management giants screaming for relief? After all, everyone knows what havoc deregulation has wrought on the equally leveraged-to-the-hilt airlines. Why, instead, does Humana Chairman David Jones think 1984 will be "the most exciting year in our short history"?

The answer is simple: The big chains like Humana are convinced they are already the low-cost provider by a wide margin in the areas they serve because of efficient management of their greater economies of scale (FORBES, *Sept. 26, 1983*). Besides, to the extent that changes have to be made, the for-profit hospital chains feel they will have plenty of time to make them. Price deregulation is coming gradually. This year 25% of Medicare-Medicaid payments will be reimbursed on the new system by diagnosis-related groups (or DRGs), with 25% added each year until 1987.

What does the phasing out of cost-plus reimbursement imply for companies in hospital supply—the companies that make everything from CAT scanners to bandages, and sometimes take out the laundry? It implies that there will be severe price competition on traditional products where there are several suppliers, and sharply improved opportunities for newer products that can save time and money.

Short term at least, that's more bad news for the older subsidiaries of Johnson & Johnson, still hurting from the Tylenol tampering and the Zomax recall, although new pharmaceutical and high-tech medical devices should offset that in time. It's also more bad news for ailing Becton Dickinson, which fell sharply on the industry Profitability Yardsticks during the latest 12 months because of heavy writeoffs of failing high-tech new products.

On the other hand, it's bound to be good news for booming Baxter Travenol, which had the foresight to launch a hospital cost-identification consulting service that probably will push BT's extensive outpatient home-

care delivery system, which is often cheaper than in-hospital care. That, of course, was a natural outgrowth of BT's portable dialysis machines that are increasingly replacing its costly kidney dialysis equipment. It's a classic example of virtue rewarded: Because Baxter has done the research and made the necessary investments in its core businesses, it gets a rejuvenating approach to its market almost automatically.

Whether the end of fixed-cost reimbursement will be good for the lower-technology suppliers will largely depend on how efficient their distribution systems are. Yardsticks-topping ServiceMaster, the king of hospital maintenance, probably has little to worry about. But outfits like American Hospital Supply and Abbott Laboratories may well find increasing competition from the pharmaceutical companies, which have already started invading this territory *(see Drugs, p. 215)*. Certainly there will be plenty of opportunity ahead for the smaller hospital-management chains—the Universal Healths and Charter Medicals—that are trying to grow through acquisition of small, foundering community hospitals. That foundering is likely to pick up in volume, and with it the acquisition opportunities. With some 15% of the nation's 6,000 facilities owned by chains, there is no lack of candidates. "The challenge," predicts National Medical's Eamer, "is for the smaller chains to convince hospital boards that they have the money and experience to manage their acquisitions. As the chains grow, however, they should have little trouble."

If all this bottom-line analysis sounds bloodless, you are thinking like a doctor. The *New England Journal of Medicine*'s Dr. Arnold Relman, in an acerbic exchange with HCA Chairman Donald S. MacNaughton on the Public Broadcasting System's *MacNeil/Lehrer NewsHour*, maintained that doctors should not be hampered by bottom-line concerns while they are deciding how to manage patient health. MacNaughton's response: Patients are increasingly managing their own health. Besides, he said, the last thing the health care community needs is continued estrangement from the world of cost responsibility.

Many think Washington may put another cloud on the horizon: As the for-profits grow and, inevitably, put some of the not-for-profits out of business, protests are to be expected from politicians seeking to protect jobs in their home states.

"There will be a lot of bitching, but I think eventually everyone will learn to live with it," says National Medical's Eamer. "The question is, will Congress give us enough time to assimilate the changes?" Adds Humana's Jones, "It's better to serve two patients than one. If you have to close down an old hospital to accomplish that, so be it."

Another near-term concern is what the growth of preferred-provider organizations, or PPOs, will do to hospital occupancy rates. In general, a shift in the way health care is delivered penalizes acute-care hospitals. This happened in 1983 as freestanding surgery and general care centers (docs-in-the-box) took root. PPOs, which by definition look for the lowest-cost means of delivering health care, can be counted on to steer subscribers away from high-overhead facilities and into newfangled providers like the Surgicares and MediClinics. But heads of hospital management firms aren't losing much sleep over it. "Occupancy rates generally rise late in a recovery," says AMI's Chairman Royce Diener. "Whatever slip occurs will be more than made up for."

Say this for the heads of the big hospital chains: They are looking at 1984 with high spirits. Says National Medical's Eamer: "This is just another form of retail selling—controlling costs to deliver the most effective product at a reasonable price." Talk like that may not thrill the medical community, but it has the sound of good business. ■

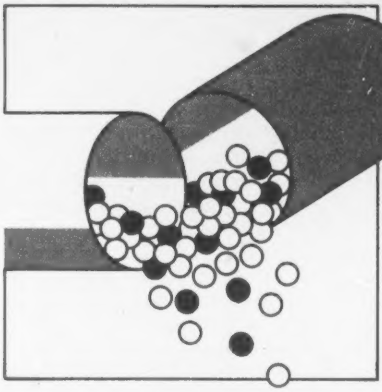
Health care

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
ServiceMaster Inds	1	39.7%	44.2%	0.0	1	40.0%	43.3%	3.7%	6	22.2%	7	24.8%
Humana	2	32.6	34.2	1.6	10	12.4	14.7	9.1	4	33.9	2	47.1
Shaklee	3	25.7	28.0	0.1	2	19.8	23.2	6.5	7	20.2	10	15.5
Abbott Laboratories	4	24.2	25.1	0.1	3	19.6	20.5	11.6	9	16.0	8	19.7
Natl Medical Entrprs	5	20.7	18.0	1.2	9	12.4	10.4	5.4	1	48.9	4	30.5
Amer Medical Intl	6	20.5	22.4	1.0	11	12.2	12.9	7.6	5	28.4	5	28.6
Beverly Enterprises	7	19.9	12.3	2.2	12	11.3	7.1	3.1	2	43.5	1	74.6
Johnson & Johnson	8	19.9	17.9	0.1	4	19.0	16.8	8.6	11	14.8	12	14.0
Whittaker	9	19.6	9.7	0.5	5	18.4	14.5	2.0	12	14.6	3	31.4
Hospital Corp of Am	10	19.2	16.8	1.1	13	11.0	10.5	7.2	3	34.7	6	26.1
Baxter Travenol Labs	11	18.5	20.1	0.2	6	15.0	17.4	11.8	8	16.2	9	18.9
Amer Hospital Supply	12	17.1	18.2	0.1	7	15.0	16.3	6.8	10	15.1	11	15.4
Bausch & Lomb	13	15.9	14.3	0.3	8	13.3	11.2	7.0	14	8.0	13	9.6
Becton, Dickinson	14	12.7	6.2	0.4	14	10.7	5.2	3.2	13	13.8	14	6.4
Sybron	15	3.5	def	0.5	15	4.4	def	def	15	3.7	15	–19.0
Industry medians		**19.9**	**18.0**	**0.4**		**13.3**	**14.5**	**6.8**		**16.2**		**19.7**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
def: deficit.

Remember the 1970s, when pharmaceutical firms bought foodmakers and called themselves "consumer products companies"? Now health care is the order of the day, and medical instruments the acquisition of choice.



Drugs

By Anne Bagamery

VARIATIONS on a theme:

John Culligan, chairman of American Home Products Corp.: "Our acquisitions policy is geared toward anything in health care."

Richard Furlaud, chairman of Squibb Corp.: "We can better serve the changing health care industry as a diversified supplier of health aids, from drugs to equipment."

Joe Williams, president of Warner-Lambert Co.: "Face it, the financial community rewards you better if you're a health care company."

In the late 1960s and during the 1970s, the watchwords were consumer products. Pharmaceutical companies, anxious to cushion their earnings from the Food & Drug Administration's stiffer testing requirements, fell over themselves to acquire bakeries (Warner-Lambert bought Entenmann's), candy companies (Squibb bought Lifesavers), eyeglass manufacturers (Warner-Lambert bought American Optical). Now it's health care, and one glance at the industry medians on page 251 tells the story. Not only is health care a closely related business using some of the same distribution channels, but it is also one of the few businesses that's nearly as profitable as ethical drugs. So recently the big drugmakers have been stripping off their old consumer products acquisitions and pouring the money into medical supply firms. As an example of this strategy, Warner-Lambert took the proceeds from the sale of Entenmann's and bought IMED Corp., a medical technology firm, in 1982.

How shrewd this turns out to be remains to be seen. While acute (that is, hospital-delivered) health care is growing better than 10% a year and currently consumes more than 4.5% of GNP, government-mandated Medicare reimbursement controls seem sure to make some areas of the medical supply business quite a bit more price-competitive and, hence, less profitable.

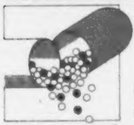
Drug research at Johns Hopkins

With an aging population, a booming market.

Meanwhile, the drug business has been doing quite nicely. Unit sales of prescription drugs were up about 4% in 1983. That's the biggest increase in the last several years. What triggered the past year's boomlet in drug sales? Some say it was produced by the graying of America—older patients take more medicine. Others say it was the substantial increase in the number of general practitioners, who tend to prescribe much more medicine than specialists. Neither trend shows any sign of abating.

So why, if it was such a good year, did a company like the Upjohn Co. turn in such a poor performance relative to its five-year profitability averages on the Forbes Yardsticks? Bad times for its commodity chemical business. As for Schering-Plough Corp., pharmaceutical profits haven't been the same since Garamycin went off patent in 1980, but a new cardiovascular drug, still awaiting final FDA approval, is due to hit the market in late 1984. Further on, the introduction of the potentially lucrative interferon may also promise earnings pickup. Then there was Richardson-Vicks Inc., hurt by the strong dollar, with two-thirds of its earnings coming from overseas. In 1983, in a bid to boost long-term profitability, R-V acquired Pantene Co. and Vidal Sassoon, Inc. in the personal care field. But earnings recovery in fiscal 1984 may be partially postponed because of heavy promotional expenses for new products.

To counter the kind of profit nosedive that Schering went through when Garamycin went off patent and the price wars began, pharmaceutical companies are trying to establish a foothold in the over-the-counter market before a drug goes off patent and gets eaten alive by the generics. Take Upjohn's highly profitable (about a third of earnings) antiarthritic Motrin, for example. Motrin goes off patent in 1985, and Upjohn and American Home Products have been seeking FDA approval to "reclassify" it and market the drug over-the-counter. Unfortunately, the reclassification process is slow, meaning that Upjohn and AHP may have only a short time before Motrin becomes fair game for the generic drugmakers (who have to prove that their product is equivalent in order to receive approval to market it). But when approval comes, as many think it will in 1984, it still could mean millions of dollars in retail sales



in the larger, over-the-counter market. Reclassification could also prove profitable for companies like Squibb, Schering-Plough and A.H. Robins Co., which have many approvals pending.

Meanwhile, drug company research spending is on the rise. Such spending reached $2.5 billion, 7% of industry sales, in 1983. Most of this research is targeted for the treatment of chronic ailments—cancer, heart disease, arthritis. There is a basic, bottom-line concern at work here. Since patients take chronic disease drugs for long periods of time, such drugs are more profitable to produce.

Also, while it may seem cynical to say, it is nonetheless a fact that chronic disease pharmaceuticals may get a company noticed in the stock market. The $200 million Bristol-Myers Co. derives in sales from anticancer drugs gets a lot more attention than its 5% share of Bristol's nearly $4 billion sales would seem to warrant. Bristol-Myers commands a price/earnings multiple of 15, near the top of the industry, in part on the strength of this project. Likewise Warner-Lambert is touting its research into drugs that may treat genital herpes and Alzheimer's disease. Such clever marketing may help boost Warner-Lambert's current P/E of 12.

But with their generally low debt load and enviable cash flows, most pharmaceutical companies can easily afford a dalliance in the medical supply field at the same time. The risks here may be greater than they think, however.

Certainly, changes in Medicare reimbursement guidelines are bound to force hospitals, and hence doctors, to seek more efficient ways to deliver health care. It is by no means clear at this stage who will be helped and who hurt. Probably there will be fewer inpatient surgical procedures and increasing reliance on outpatient treatment and medication—the area the pharmaceutical companies emphasize in their prescription-drug research.

Certainly, changes in reimbursement guidelines will force hospitals to seek efficiency. But whether this will benefit low-tech medical suppliers is quite another question.

But whether the low-technology kinds of medical supplies made by a company like American Home Products will benefit as hospital management companies adjust to their new cost-consciousness is quite another question.

Naturally, pharmaceutical executives see the situation a little differently at the moment: "Because of uncertainty over the funding changes, hospitals will be reluctant to buy large items, such as ultrasound equipment," says Furlaud of Squibb, which gets 20% of its $1.6 billion sales from medical equipment. "But they will always need laboratory instruments and intravenous bags. That's where we come in."

But will the hospitals really care who makes those intravenous bags in the future, as long as they are cheaper? Does it have to be a Johnson & Johnson suture? Maybe they will discover that U.S. Surgical's surgical stapler is far cheaper, as well as more effective.

Warner-Lambert is no slouch, but look at the problems they have had with IMED. The medical equipment division has had problems bringing new products out on time and is plagued by management squabbles. These problems didn't surface until a year after Warner paid $468 million for the company.

At the moment, however, drug executives are flush with success, and concerned more about whether the dollar will weaken in 1984, thereby triggering a recovery in the industry's big overseas sales. The future looks bright indeed. Says Bill Miller, head of Bristol-Myers' prescription drug business: "We think the industry has one of its best years ahead." ■

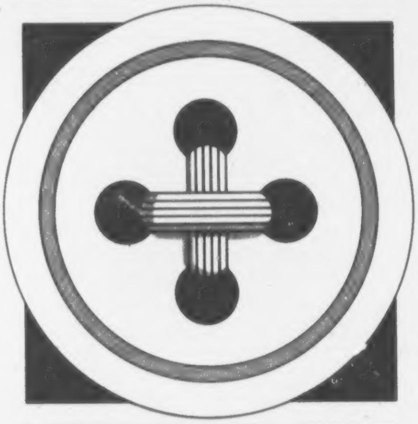
Drugs

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
SmithKline Beckman	1	35.1%	26.4%	0.1	2	31.2%	23.3%	15.3%	1	24.9%	1	27.7%
American Home Products	2	33.9	34.7	0.0	1	33.4	32.4	12.7	9	10.6	4	12.5
Merck	3	22.8	20.2	0.1	5	19.2	15.8	14.0	5	11.8	10	10.0
Bristol-Myers	4	22.6	22.9	0.1	3	21.0	21.5	10.2	8	10.9	3	13.4
Eli Lilly	5	22.0	21.7	0.0	4	20.6	19.4	14.7	3	13.9	6	11.0
G D Searle	6	20.8	22.8	0.3	7	16.0	18.7	16.0	13	5.9	2	17.3
Upjohn	7	19.1	15.5	0.4	12	14.0	11.3	7.8	6	11.6	5	12.1
Schering-Plough	8	17.9	14.4	0.2	6	16.5	12.0	10.7	2	14.4	12	5.4
Pfizer	9	17.8	20.2	0.3	11	14.2	16.7	11.6	7	11.2	8	10.2
Sterling Drug	10	16.3	15.4	0.1	9	14.4	13.3	7.1	11	9.7	11	7.8
A H Robins	11	15.6	17.8	0.1	10	14.3	16.6	10.5	10	10.4	8	10.2
Richardson-Vicks	12	14.9††	10.5	0.4	8	14.5††	9.2	4.5	4	12.6‡	7	10.7‡
Squibb	13	13.6	15.0	0.3	13	10.8	12.2	9.5	14	5.4	13	3.4
Warner-Lambert	14	11.4	16.9	0.6	14	8.0	10.2	6.3	12	6.7	14	–4.6
Industry medians		**18.5**	**19.0**	**0.2**		**15.3**	**16.2**	**10.6**		**11.1**		**10.5**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
††Three-year average. ‡Four-year growth

The apparel industry spent the recession developing marketing strategies and cleaning house. The harvest began in 1983, and 1984 should be even better.



Apparel

By Laura R. Walbert

THERE HAS BEEN a transition within the apparel business," says Larry Pugh, chairman and chief executive of V.F. Corp. "Apparel makers are recognizing that they need a marketing approach, not just a manufacturing approach to merchandise."

Advice from the folks at V.F. is worth heeding. The $1.1 billion (sales) company, maker of Lee jeans and Vanity Fair lingerie products, steals the show on the Forbes Profitability Yardsticks for the latest 12 months with an impressive 37.5% return on equity and a 32.3% return on capital. That leaves giant Levi Strauss & Co., with sales of $2.8 billion the world's largest apparel maker and longtime industry profit leader, in the dust with its far lower 19.2% return for the same period.

The disparity is mainly attributable to different marketing strategies. With the jeans market flat at around $5 billion annually, Levi's tried to spur sales by mass marketing its jeans products through Sears and J.C. Penney. That strategy backfired, however, because it antagonized many of Levi's department and specialty store retailers. Some reduced or even dropped their Levi's line. A slump in Levi's international business only made matters worse.

Executives at V.F., in contrast, sought to prolong the life of the great denim bubble through the introduction of new products. V.F. was one of the first producers to come out with stretch jeans. In 1982 it introduced the more styled fashion jeans for women and brought out the Lee Dress Blues, which Pugh describes as "jeans with a dress-up look." As a result, V.F.'s share of the U.S. jeans market has risen from 2.5% to nearly 11% since 1980.

V.F.'s new product push extended to its Vanity Fair lingerie line as well. The La Femme de Vanity Fair collection of fashionable sleepwear products for the 25-to-35-year-old woman was added in 1983. "The young women's sleepwear market is a big one, and a market where we have been weak," says Pugh. "What we have tried to do over the past year and a half is improve our marketing expertise so

Apparel

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Clothing												
VF	1	27.9%	37.5%	0.1	1	23.8%	32.3%	11.0%	4	12.0%	2	24.8%
Levi Strauss	2	24.0	19.2	0.2	2	21.3	17.4	7.0	2	15.5	5	14.8
Warnaco	3	18.9	18.2	0.3	3	14.1	15.6	5.5	12	5.2		D–P
Palm Beach	4	18.6	13.7	0.6	4	13.8	10.8	2.6	1	21.5	7	8.7
Oxford Industries	5	15.7	25.4	0.2	5	13.3	21.5	4.7	5	10.9	3	16.8
Blue Bell	6	14.4	11.1	0.2	6	12.8	9.7	3.9	3	12.4	9	3.0
Interco	7	12.2	9.2	0.3	7	11.0	8.5	3.6	6	9.8	8	4.1
Hartmarx	8	12.0	13.7	0.4	8	10.4	11.2	3.6	7	7.8	4	15.6
Cluett, Peabody	9	10.2	[illegible]	0.4	9	8.6	9.3	3.0	8	7.0	6	14.6
Phillips-Van Heusen	10	8.8	[illegible]	0.4	10	7.6	10.2	2.7	9	6.3	1	30.0
Kellwood	11	6.6	[illegible]	0.7	11	6.9	13.0	2.4	11	5.6	11	–7.4
Manhattan Industries	12	6.4	12.9	0.7	12	5.9	8.9	1.9	10	5.9	10	–1.6
Jonathan Logan	13	def	13.3	0.2	13	0.9	11.8	4.6	13	2.3	12	P–D
Medians		12.2	13.7	0.3		11.0	11.2	3.6		7.8		11.7

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. D–P: deficit to profit; not ranked. def: deficit.

it is as good as both our financial and manufacturing abilities."

That's just what every manufacturer ought to be doing, says a spokesman for New York-based consumer goods consultants Kurt Salmon Associates. "Companies like Warnaco, V.F., Oxford Industries and Kellwood were among the top performers in 1983 because they know where they are going long term, they've learned to live with the import situation and they think of themselves as marketers first,' he says. To put it another way, the age of designer labels and brand names, off-price retailing and foreign imports (now 30% of retail sales) has made it essential for the manufacturer to become more sensitive to the retail end of the business.

For those that were, 1983 turned out better than most apparel makers had anticipated, as consumers opened up their pocketbooks and freshened up their wardrobes. During the second quarter, when real GNP grew 9.2%, clothing sales leaped an inflation-adjusted 18.7%, according to figures from Value Line. Rag trade executives are looking for another 10% growth in apparel sales in 1984.

Hartmarx' Austin Reed suits for women
A brand you can take anywhere?

Building a brand name is the classic way to upgrade your marketing effort in the apparel industry. That's what Oxford Industries, a newcomer to Forbes' list, has been doing. Less than a decade ago the $517 million (sales) Atlanta-based company was little more than a small producer of "commodity" apparel, selling mainly to J.C. Penney and Sears. But using brand names like Polo, by Ralph Lauren, for boyswear and Merona Sport for sportswear enabled Oxford to raise both prices and margins significantly. In 1983 Oxford's 25.4% return on equity and 21.5% return on capital was topped only by V.F. and Nike, the still-booming athletic-shoe maker (whose 30% return on capital, vs. a five-year average return of 65.6%, shows the first hints of strain in that crowded market).

And a round of applause for Jonathan Logan, a maker of women's apparel whose recently achieved 4.6% net profit margin is well above the industry median. Back from red ink on its five-year average, the company closed its money-draining knitting mill and cut some unpopular lines during the last few years—just the kind of slimming down so much of the rest of American industry has

Apparel

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Textiles												
West Point-Pepperell	1	12.3%	13.3%	0.3	2	9.9%	[illegible].8%	4.3%	1	10.5%	3	9.1%
Collins & Aikman	2	11.3	16.5	0.3	3	8.9	12.3	4.3	2	7.6	4	5.7
Cone Mills	3	10.9	4.8	0.1	1	10.0	4.8	2.4	9	4.0	6	2.1
Riegel Textile	4	10.3	5.4	0.3	6	7.8	4.6	1.9	3	7.4	7	1.6
Fieldcrest Mills	5	10.3	9.3	0.4	4	8.3	7.8	2.9	4	7.3	5	3.5
Springs Industries	6	9.1	8.0	0.1	5	8.0	7.3	3.7	5	7.0	2	17.1
Burlington Inds	7	7.5	7.7	0.4	7	6.1	6.3	3.0	7	5.3	8	0.2
M Lowenstein	8	6.6	10.5	0.4	8	6.1	8.3	3.2	11	1.8	1	72.9
Avondale Mills	9	5.6	12.2	0.1	9	5.3	10.5	3.5	8	5.1	9	–1.2
J P Stevens	10	3.4	2.9	0.6	10	3.9	3.6	0.8	6	6.2	10	–14.1
Graniteville	11	def	def	0.5	11	1.0	def	def	10	2.8	11	P–D
United Merch & Mfrs	12	def	def	0.7	12	def	1.4	def	12	–7.1	12	D–D
Medians		**8.3**	**7.9**	**0.4**		**7.0**	**6.8**	**3.0**		**5.8**		**1.9**
Shoes												
NIKE	1	77.6%	30.3%	0.1	1	65.6%	30.0%	6.7%	1	71.9%‡	1	71.6%‡
SCOA Industries	2	27.5	20.7	0.9	3	17.2	13.3	3.0	4	11.7	2	23.3
Melville	3	25.3	21.6	0.2	2	23.9	21.2	4.2	2	18.0	5	16.3
United States Shoe	4	20.5	19.9	0.2	4	16.7	17.3	5.0	3	12.1	4	17.4
Brown Group	5	17.5	17.5	0.2	5	14.4	15.1	4.4	5	9.4	3	19.1
Genesco	6	3.9	def	1.6	6	4.7	3.7	0.2	6	–7.2		D–P
Medians		**22.9**	**20.3**	**0.2**		**17.0**	**16.2**	**4.3**		**11.9**		**19.1**
Industry medians		**10.9**	**12.9**	**0.3**		**8.9**	**10.5**	**3.5**		**7.3**		**8.7**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. D–D: deficit to deficit. D–P: deficit to profit, not ranked. def: deficit

needed. Now with 95% of its sales in women's branded apparel, such as Villager sportswear and Misty Harbor rainwear, Logan is in a position to enjoy the resurgence of brand names and America's renewed interest in denim-free dress. Dress sales for 1983 were up 25%, says Logan Chairman and Chief Executive Richard Schwartz. Especially popular were soft looks, such as sweater dresses and untailored blazers.

Like Oxford, Logan has been moving increasingly into branded goods as well as adding new product lines. Logan's "signature line," Etienne Aigner, originally was just a collection of leather goods. Today the Aigner line contributes 30% of company sales and an estimated 35% to 40% of operating profits. "In the last ten years, though, we've added items every season," says Schwartz. "We started adding raincoats in 1973-74. Knitwear was added four years ago. This past year we added button-down oxford shirts. It's been constant."

Chicago-based Hartmarx, the nation's largest manufacturer of quality men's suits, is also benefiting from the trend to more conservative dress. Male baby-boomers are now entering the suit years: The number of men in the 35-to-54-year-old bracket will grow 28% during this decade, compared with only 4% in the 1970s, according to Hartmarx Chairman and Chief Executive Jerry Gore.

Again, brand names are important. Capitalizing on the successful Austin Reed of Regent Street men's collection, which has grown to sales of $40 million in seven years, Gore expanded the Austin Reed name to women's suits in 1982. And Hartmarx' longstanding practice of selling to one retailer in each community has protected Hartmarx' brand names, such as Hickey-Freeman and Hart Schaffner & Marx, from the ravenous off-price retailers who would ruin the line's ability to command full price.

To reach the growing market for inexpensive suits (80% of all suits sold are priced at $200 or less), Hartmarx bought Kuppenheimer, a manufacturer and retailer of low-priced (under $150) suits in December 1982. Close to 50 stores were added to the chain in 1983, and at least that many will be added in 1984, says Gore.

Of course, a successful apparel maker also has to learn how to deal with imports. And brand names are good weapons in that battle as well, reports Gore. "Imports are for the most part not branded, and they do not compete effectively with brand names," he says.

There is more than a little bravado in that statement, of course. After all, imports do control a third of the U.S. market. And like the automakers, who are in a similar fix, many apparel makers are doing better by joining the enemy. "Oxford and Kellwood [a longtime Sears supplier of apparel and home furnishings] used to be the strongest bastions of 'Made in America or else,'" says Kurt Salmon's spokesman. "Well, Kellwood now owns Hong Kong-based Smart Shirts Ltd., and Oxford has some of their goods made in China, and they are both moving ahead beautifully."

Oak Hill Sportswear uses the same strategy. An $85 million (sales) apparel maker, Oak Hill turned up in the number two slot on FORBES' recent list of Up & Comer companies *(Nov. 7, 1983)* with a five-year average return on equity of 141.5%.

Currently more than 10%, and soon one-quarter, of the company's sales will come from marketing sweaters that are made in the Orient. "You can never be competitive with imports; the labor costs don't allow it," says Oak Hill President Joseph DeClemente. "But we have been able to watch the import market and be into items that either they don't make or that we can supply when they get backed up in their deliveries."

This doesn't mean the apparel industry has given up on competitive pricing. Companies like Warnaco, Palm Beach and Cluett, Peabody spent the last two years cutting costs by reducing inventories, dropping weak product lines and trimming overhead. The results are in the net profit margins. For Warnaco, the producer of such lines as White Stag, Hathaway and Puritan, the net profit margin improved to 5.5%, from 4.7% in 1982. Shirtmaker Cluett, Peabody saw its margin rise from 2.5% to 3.0%, and for Palm Beach, a maker of high-quality men's and women's apparel, margins rose to 2.6%, from 1.5%. In this industry those are impressive gains.

As for 1984, if the apparel companies are not careful, they might just have a great year. If that doesn't happen, they may have no one to blame but themselves. ■

No sagging sales here

By industry standards the $3.5 billion women's hosiery market has been experiencing runaway growth for the last year or two. Reason: the popularity of colored and textured panty hose.

The 1.3 billion pairs of hose that were shipped in 1982 represented a 7% increase over the 1981 shipment, says Sid Smith, president of the National Association of Hosiery Manufacturers. And over at Hanes Hosiery, a division of Consolidated Foods Corp., President Wade Harn reports delightedly, "Hosiery volume was up 8% in units between August and October [of 1983]. A normal increase would have been more like 2%."

Hanes
Colorall
Hanes

Colored panty hose
A recession success.

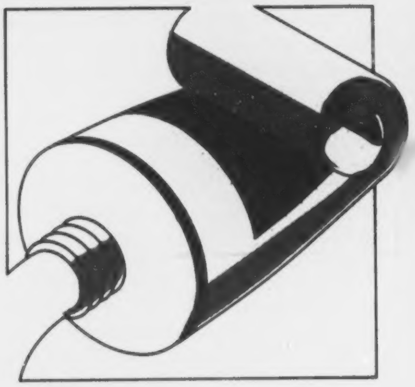
What has brought colored hose into the limelight? Smith has a theory: "We had a downturn in the economy and a more stringent attitude toward consumer spending at a time when people were thinking emotionally about dressing up. Consumers found they could dress up their outfits and change their total ensemble look by changing their hosiery. The new colors, patterns and styles that the hosiery manufacturers came up with played right into that trend."

Hanes responded by expanding the colors in its existing lines, introducing the new Coloralls brand and offering new colors and textures in its Oleg Cassini signature line each spring and fall. Says Harn, "Our volume in the Cassini line for the fall of 1983 was twice what it was for fall '82, which was twice the fall of '81." New colors and weights were also added to lower-priced L'eggs panty hose, another Consolidated Foods product, which sell through supermarket and drugstores.

Will the fad last? Says Harn, wistfully, "I wish I knew."—L.R.W.

Here we have consumers slowing down and the fragmentation of established markets speeding up. It's time to put on an unhappy face.

Toiletries and cosmetics



By Barbara Ettorre

RECOVERY STOPPED SHORT of cosmetics and personal care companies in 1983. Sales of the creams and lotions renowned for their resistance against hard times failed to go back into high gear when those hard times eased.

Unit sales of personal care items—shampoos and conditioners, deodorants, shaving creams, home permanents and facial care products—advanced only about 2% to 4% in 1983, instead of a normal 4% in a good year. Cosmetics, from the high-priced department-store lines to cheaper lines sold in drug and variety stores, did not fare much better. Fragrances pre-Christmas were actually flat because consumers were well-stocked with old stuff and found a dearth of new, well-priced, exciting scents in the marketplace.

The prognosis isn't good, either. Earnings should advance around 5% in the first half of 1984, sales perhaps 8%. That's nothing like the automatic 10% to 15% annual growth rate in profits in the late 1970s, when cosmetics and personal care companies could almost do no wrong.

Bargain-hunting in the toiletries section of a discount drugstore
"Not so narcissistic now."

So what is wrong?

Simply put, the consumer is becoming less free with her money. She may still want cosmetics as much as she always did, but now she's being more careful about buying them. The change is beginning to look at least semipermanent. The rate of women entering the work force has slowed, so there are fewer new salaries to tap for big growth. The end of the so-called ME generation has meant more customers less interested in peer pressure, people who would rather not pay for glamour or prestige, either in the product or the store where they might buy it. "Consumers aren't so narcissistic now," sums up Allan G. Mottus, an industry consultant. Now what could be worse for a cosmetics company?

Companies somehow have to tease more of their sales growth from customers who have exhausted their at-home inventory, rather than from impulse spenders drawn to the latest hot item. This is a disconcerting prospect for the most hype-conscious of all manufacturing industries.

How has the industry reacted? Mostly by trying to keep list prices intact and the aura prestigious. But that has led only to more diversion. Diversion? High-priced, high-markup cosmetics are typically sold "exclusively" to toney retailers in order to keep up the product's image. But more than ever they mysteriously appear, diverted, on the déclassé shelves of Sly Sam's Cheap Stores at a large discount.

Couple this spreading practice with across-the-board reluctance on the part of prestige retailers to stock full inventories and tie up valuable cash, and you can certainly understand why manufacturers turn a blind eye knowing that middlemen are diverting merchandise.

The old ways don't seem to work anymore. Even imitation fails to pay as it used to. Now, "There are too many chickens out there, too many 'me-toos,' " explains Henry G. Walter Jr., chairman and CEO of International Flavors & Fragrances.

The days of 35 new fragrance introductions a year are also gone. It's too expensive now—advertising and marketing costs leaped at least 10% in 1983—and the consumer is less responsive. "Their lifestyles are more pluralistic," says consultant Mottus, "so a manufacturer's expenditures don't give enough return to warrant the cost." The audience for any single product is simply getting too segmented. So when Chesebrough-Pond's aggressively promoted its inexpensive Aviance Night Musk and

Cachet Noir women's fragrances in 1983, Chesebrough also saw the increased ad costs eat away most of the potential profits.

The international picture, historically profitable, is just as cloudy. Sales in Europe are soft, and in South America a disaster. (The collapse of raw material prices, raging inflation and precarious loan positions have staggered Latin America's heretofore reliable middle-class buying.) Clearly, such companies as Colgate-Palmolive, American Cyanamid and Kimberly-Clark are rethinking their international businesses—accounting for, respectively, 57%, 51% and 28% of profits as recently as 1982.

Under all this pressure, the manufacturers are fighting here at home to carve narrower niches where they think they can hold their own. The increased fragmentation of the market has the players themselves confused. Consider the shampoo market. The plethora of new brands finds some of the big guns like Procter & Gamble (Head & Shoulders brand), Revlon (Flex) and Gillette (Silkience) being pushed around by aggressive littler guys like Helene Curtis (Finesse).

The lure is too great: The American shampoo market is about $1.2 billion at retail. Even a 1% share means $12 million. And shampoo is an easy-entry category requiring no great capital investment, except formula and packaging—but ultimately, of course, heavy ad spending.

Redken Laboratories continues its pricey hold on beauty salon customers. Lamaur, a $75 million (sales) Midwest company, has a 2% market share with its Style shampoo and is introducing Perma Soft, a shampoo for permed hair. Altogether, scores of brands vie for a piece of the shelf space, and bigger companies worry. As William J. Ryan, president of Gillette's personal care division, says, "To the extent that smaller companies are segmenting the market, I have to think that this is making the business more competitive."

Segmentation may make money in the shampoo market. Not so in other areas. When does a new product begin to steal market share from an established brand? Some companies think they are better off pumping money into an established brand, avoiding the risk of wasting it on a flop. Gillette, whose Right Guard deodorant has earned $500 million in profits since its 1960 introduction, spent $30 million in 1983 to market an upgraded formula that stopped a protracted sales decline. In fact, ad budgets for all toiletries and cosmetics companies were up 24% for just the first six months of 1983. For 1984, concerns like Revlon, Gillette, Richardson-Vicks and Chesebrough-Pond's are boosting their marketing budgets for established brands alone by as much as 15%, figuring that a brand in the hand is worth two on the drawing board.

The results of the consumers' tightfistedness show up all too clearly in the accompanying tables. Six of the nine companies in this category saw their return on equity drop noticeably below their five-year averages. Some very noticeably—like heaviest loser Avon Products, whose traditional door-to-door business continues to find fewer women at home when the Avon lady rings the bell. And Revlon, whose ROE is half of its five-year average because of heavy advertising and flat sales for most of 1983. The few gains in ROE by Procter & Gamble, Gillette and Colgate-Palmolive were overshadowed by such declines.

Overall, this category's ROE fell in 1983 to 15.2%, from 17.7% in 1982, even though the median for all industries dropped only slightly, to 12.6%, from 12.7%.

Net profit margins, clustered for the most part below 7.4% (except for IFF's traditionally high return on sales), also dropped, from 6.7% in 1982 to 6%, even as the all-industry margin rose slightly, from 3.4% to 3.5%. But that was small potatoes compared to what happened to the five-year earnings-per-share average. That figure dropped from 12% in 1982 to 8.5%. The all-industry average also dropped, due to the recession, but less precipitously—from 12.3% to 9.4%.

Are there any bright spots? Body sprays—inexpensive deodorant-fragrance products popular in Europe—are being introduced by Lever Brothers, Gillette, Carter-Wallace and Fabergé. Gillette's Ryan estimates the category could produce a total of $70 million at retail in 1984.

Otherwise, the world of lotions and potions is not pretty. As Roger Shelley, Revlon's vice president of corporate affairs and investor relations, very unhappily summed it up: "It's becoming patently obvious that it's a matter of which marketer is taking shares from other marketers, not industry growth as a whole." ■

Toiletries and cosmetics

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Avon Products	1	23.5%	14.9%	0.2	1	23.1%	11.7%	6.0%	3	12.1%	7	3.4%
Chesebrough-Pond's	2	21.3	19.2	0.2	3	17.5	16.3	7.3	2	14.3	1	13.4
Intl Flavors & Frag	3	21.3	19.7	0.0	2	20.1	19.0	14.5	6	9.7	4	10.4
Procter & Gamble	4	19.7	20.1	0.2	4	15.4	15.7	7.0	4	11.3	3	11.8
Gillette	5	18.7	19.7	0.4	5	13.9	14.2	6.5	8	8.3	5	8.5
Kimberly-Clark	6	17.9	12.0	0.2	6	13.9	9.5	5.3	5	11.2	2	12.7
Revlon	7	14.7	7.6	0.3	7	12.7	6.4	4.0	1	17.5	6	5.4
Colgate-Palmolive	8	14.3	15.2	0.2	8	11.7	12.6	4.1	9	7.5	8	2.5
American Cyanamid	9	11.5	9.7	0.3	9	8.9	7.9	4.3	7	9.4	9	1.8
Industry medians		18.7	15.2	0.2		13.9	12.6	6.0		11.2		8.5
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38

Domestic cigarette sales may be trailing off, but even in a bad year tobacco profits are far better than anything else these companies buy into.

Tobacco

By John Merwin

The number of cigarettes sold in the U.S. declined more sharply than ever in 1983, perhaps by as much as 6%—nearly 40 billion smokes—according to year-end estimates by R.J. Reynolds Industries. In 1984 unit sales, at best, are expected to be up slightly. Some observers suggest sales may be down again.

For the better part of two decades tobacco giants have been preparing for days like these by diversifying into soft drinks, beer, oil, steak sauce, liquor, food processing, insurance and shipping. Wall Street has applauded them for these efforts all the way.

Trouble is, the harder the tobacco companies try to diversify away from tobacco, the more they seem to earn selling cigarettes. Year after year tobacco majors have continued to earn the major share of their considerable profits from cigarettes. And 1983 was no exception. Philip Morris' cash flow ran about $1.2 billion, most of it from cigarettes, which account for about 60%of its assets. About half of Reynolds' $1.5 billion cash flow stemmed from tobacco (30% of its assets). Loews (owner of Lorillard) and American Brands, Inc., respectively the fourth- and fifth-largest domestic cigarette producers, still rank among the overall profit leaders on the Forbes Yardsticks, thanks to cigarettes. And this ranking comes despite the fact that Loews is principally an insurance conglomerate, while American Brands in recent years has channeled most of its $445 million annual cash flow into nontobacco businesses.

In fact, things are so bleak in tobacco that Philip Morris, which puffed past R.J. Reynolds to become the nation's leading cigarette producer, has been spending roughly $500 million a year on new tobacco production facilities and high-speed cigarette rolling machines. Number two Reynolds has launched a ten-year, billion-dollar capital improvement program for its tobacco operations.

Now, granted, even cash cows have to be fed now and then. But these are big numbers. Have PM and RJR lost their heads, throwing such good money into an obviously shrinking business? Hardly. Companies like PM and RJR haven't usually topped 20% on the Forbes return on equity Yardsticks below by making foolish investments, at least not in tobacco.

Fact is, if you have the market share, there's no business like a mature or even a shrinking business—if it's shrinking this slowly, and this lucratively.

In fact, reports of tobacco's death may be greatly exaggerated. Suppose, at the worst, U.S. cigarette sales in 1984 slip to 590 billion smokes, from about 600 billion in 1983. One reason for last year's decline undoubtedly is the unusually sharp federal, state and local tax increases tacked on in 1983. That helped drive up the price of a pack of cigarettes about 25%, depending on retail location. At most stores prices topped a dollar a pack. Given so

Tobacco

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Philip Morris	1	23.7%	23.7%	0.9	3	13.1%	12.4%	6.8%	1	18.6%	3	18.2%
Loews	2	22.5	22.2	0.5	4	12.6	14.1	5.8	3	11.9	1	21.8
American Brands	3	22.1	19.5	0.2	1	16.5	15.2	5.6	4	8.6	4	18.0
R J Reynolds Inds	4	20.1	16.1	0.3	2	14.6	11.5	5.6	2	16.0	5	10.9
Culbro	5	17.1	7.2	0.5	5	10.7	7.0	1.4	5	3.7	2	19.1
Industry medians		**22.1**	**19.5**	**0.5**		**13.1**	**12.4**	**5.6**		**11.9**		**18.2**
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.

extraordinary a price hike, the decline in unit sales in 1983 may have been only a momentary dip, rather than the beginning of a long-term decline.

Certainly, those manufacturers with commanding market shares don't sound worried. Frequent price increases generally cover inflation, and when you're selling 600 billion cigarettes a year, the leverage of a little price hike is tremendous. Says Philip Morris Chairman George Weissman, "On a dollar base per pack, if prices are increased 3%, that's only three cents to the consumer. But to manufacturers it's a billion dollars in available profit. So even if cigarette sales drop to 590 billion or 580 billion, we're talking minuscule changes."

Reynolds Treasurer John Dowdle points out that real earnings gains in tobacco come by increasing production efficiences and market share. Twenty years ago machines rolled only 1,200 cigarettes per minute. Today's state-of-the-art machines spew out 8,000 a minute. That's one reason cigarette operating earnings run about 15% to 20% of sales.

Despite Wall Street's concern about the future of tobacco, companies such as Reynolds and Philip Morris are still reaching for more market share. Blessed with megabrands like Winston and Marlboro, they enjoy distribution efficiencies that smaller tobacco players can't match.

Why go to that effort in an industry that has limited growth at best? Because the market leaders are planning to live off market stragglers and the faint of heart. Take Philip Morris, the purest of the major tobacco companies, with 60% of its assets, 67% of sales and 90% of operating profits in tobacco. Says PM Chairman Weissman, with a confident drag on a Players cigarette: "If anybody gets discouraged with tobacco, we will take on their share of market, their unit growth and their everything else." Weissman continues: "Look, in 1964 cigarettes were selling for about 28 cents a pack. Now they cost 3 or 4 times that, and our industry is still selling 25% more cigarettes. That isn't a brilliant record, but it isn't a bad one, either." Another point worth noting: Even though domestic sales are down, foreign consumption continues to move up, which bodes well for U.S. tobacco companies, especially if the dollar weakens.

Companies with smaller market share take a different approach. In effect, they are borrowing from tomorrow in tobacco, betting that diversifications will make up for sliding or stagnant cigarette market shares. American Brands has been among the most aggressive advocates of investing tobacco cash flow outside the industry. Last year the company spent about $550 million on acquisitions, while its tobacco capital expenditures totaled only $54 million. Of its nontobacco businesses, insurance, liquor and food products have shown the best returns. Recently American Brands struck a deal to acquire Southland Life Insurance for $352 million, an amount roughly equal to a year of domestic tobacco's operating profits.

For companies with stronger market share, however, diversification remains a mixed blessing, at best. While Reynolds enjoys good returns in oil, its 8% operating margin in food and beverages pales beside tobacco's 14%. Reynolds, which sees itself as a $13 billion consumer packaged goods manufacturer, is struggling with low margins in its Del Monte division. "I don't think we can change the fundamentals of the processed food business," explains Dowdle, "but we can use it as a building block to move into higher-value-added food businesses." The idea: Del Monte will become the conduit for Reynolds' higher-margined liquor, wine and grocery products, acquired 15 months ago in RJR's $1.6 billion purchase of Heublein.

Philip Morris' Weissman says he is willing to accept lower nontobacco returns "to keep an anchor to wind-

The smokes with no name

The most surprising development in cigarette marketing last year was the continued growth of generics. Generic cigarettes, which sell for $2 a carton less than "branded" smokes, are simply labeled "cigarettes" or, in major supermarket chains, bear private labels like Safeway's Scotch Buy.

Generic smokes emerged four years ago after major supermarkets launched broad lines of generic goods—unbranded packages of peaches, paper towels and so forth—for consumers on a tight budget. Supermarket chains figured generic cigarettes might sell, too, and they were right.

After the first three years generic cigarettes captured 0.8% of the market. That may not seem like much, but it's considered a promising start in the tobacco business, where a mere 1% share means $180 million in retail sales. Surveys now indicate that in 1983 generic sales neared a 2.5% share, certainly a marketing coup.

Naturally, executives at Philip Morris and R.J. Reynolds doubt the staying power of generic cigarettes, assuming the recession lifts. After all, Madison Avenue has brainwashed consumers into thinking that their choice of cigarette is a strong statement about what kind of person they are. Smokers of Marlboros, for example, are told that they are saying, "I'm the rugged individualistic type," while those who puff the newer Players are supposedly saying, "I'm a swinger." Who would want to make the cheapskate statement of plopping down a pack of less expensive Scotch Buy smokes at the local tavern? Answer: more people than anyone suspected.

Happiest about the generics' success is Liggett & Myers, a onetime cigarette powerhouse that faded with its old-line brands, L&M, Lark and Chesterfield. Today nearly all of the country's generic cigarettes are rolled in Liggett's Durham, N.C. factory. Buoyed by rising generic sales, Liggett is now test-marketing two new nongeneric brands and is even trying to revive the once-strong L&M franchise. That's a tall order for Liggett, which even with generics has only a 4.2% toehold in the cigarette marketplace. Nevertheless, Liggett Marketing Vice President Hal Grant says the company's parent, London-based conglomerate Grand Metropolitan, is pleased with Liggett's revival and is backing the company with all the dollars it needs. And Grand Metropolitan, which makes part of its living making book at the racetracks, ought to know a good bet when it sees one.

Smokers try Liggett's generics initially because of the 20-cents-a-pack saving, says marketing director James Dowd, then stick with them when they discover the quality is up to that of regular brands. But what about the absence of "image" or "personal message" when smoking generics? Says Dowd, "Generic smokers are making a personal statement, all right: 'I don't have to subsidize billboards.' "—J.M.

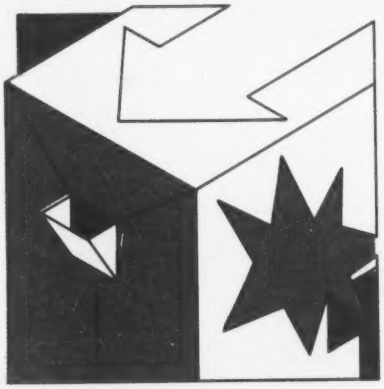
ward." In order to invest in both tobacco and diversification, PM carries $3 billion in long-term debt. Weissman bristles at suggestions that PM's $2 billion investment in Miller Brewing, with its wobbly 5% operating margins, has done little for the company: "Our entire investment in beer at this point is under $500 million on the intracompany account because of Miller's earnings flow, depreciation and tax credits. And this year we'll make over $100 million in beer."

But what about the $500 million PM sank into Seven-Up that is returning almost nothing? Dr Pepper, which is in similar shape, is on the block. "I don't know if we can make Seven-Up work," Weissman says. "It depends on the extent to which Coca-Cola wants to drive out everybody else and also on who has the staying power." PM has staying power, but is it worth the trouble?

Why not reinvest that billion-dollars-plus cash flow in tobacco directly, or at least indirectly, by buying back the company's relatively cheap stock, selling recently at 10 times earnings? Wouldn't that $2 billion invested in Miller over the last 13 years have brought a better return in T bills? "We are operating people," Weissman says. "We are not bankers. We are not money market swingers like Baldwin-United, which had a lovely piano business. Sometimes we may not act in the shareholders' best short-term interests. But anyone who looks at the company's 20-year record will see that in the long term we have acted in their best interest."

It's hard to quarrel with that. ■

Glass is out, plastics are in—as long as the price of oil stays as depressed as it is. Meanwhile, shifting assets is costly for the packagers.



Packaging

By Ellen Paris

REMEMBER the party scene in the 1967 film *The Graduate* in which a well-intentioned executive gives some career advice to young Dustin Hoffman: "Plastics!"?

Well, we have come full circle since the late Sixties. With the price of oil depressed at the moment, petrochemical-based plastics are once again returning to haunt packaging companies still dependent on glass. In the all-important soft-drink market, glass dropped from a near 60% of the market in 1977 to around 44% today and is still falling. At the same time plastics has climbed from virtually nil in 1977 to about 22% today.

"We think plastic has preference over glass today, and we don't want to fight the trend," says Robert Lanigan, president of Owens-Illinois, often dubbed a pale blue chip because of its persistently anemic profitability. As the nation's largest glassmaker, O-I's five-year average ROE at 8.6% has barely kept pace with inflation. In 1983 Lanigan established a $28 million aftertax reserve against costs of closing a portion of O-I's glass capacity. He will concentrate instead on expanding the company's plastics division, which makes plastic containers for the food, cosmetics, pharmaceutical and beverage industries and which will account for 25% of O-I's business in 1984, vs. 16% the year before.

The same costly asset redeployment is happening at most other glass companies on the Yardsticks rankings. Once highly profitable Brockway, Inc. (NY)—based in Brockway, Pa. and one of the country's largest glassmakers—with around 80% of its sales tied to glass, has earned on average just 7.3% on shareholders' equity over the last five years. Take out inflation and you get red ink. In 1983 it earned no more than 4.5%—as pitifully inadequate as the interest on your savings account. Clobbered over the last few years when its major customer, Miller Brewing, began switching more of its premium beer packaging from glass bottles to cans, Brockway threw in the towel. Not only has it closed and written off a glass bottle plant in Washington, Pa., it is being very selective rebuilding its glassmaking furnaces. It is redirecting some of its cash flow to its profitable commuter airline division, including Crown Airways, Clinton Aero and Air North, which serve several northeastern markets. That's spelled DEFEAT.

It's the same story at ever-mediocre Anchor Hocking. Management cashed in its chips last year and sold its glass container operation in a leveraged buyout to Wesray Corp. Some of the proceeds were used to pay off short-term debt. Anchor Hocking President and CEO J. Ray Topper is undecided about what he will do with the rest of the $52 million in cash. "We kept throwing money back into glass," explains Topper, belaboring the obvious, "but it wasn't throwing off enough cash."

So why is Ball Corp. hanging right in there at the top of the industry Yardsticks? Everyone knows that Ball, as in Ball jar, is a glassmaker. Yet there it is with an unbeatable 12-month return on equity of 16.2%, nearly three times the packaging industry median. The answer, of course, is that Ball saw plastics coming and did something about it. For several years Ball has been diversifying away from glass and into the aerospace industry. Ball supplies technical products, like satellites, electro-optical sensors and antennas to NASA and the military. The company also provides copperplated zinc blanks to the federal mint, which turns them into pennies. In this niche, Ball is—figuratively and almost literally—coining money.

Niche-hunting also explains the successes of New Hampshire-based Tyco Laboratories and Sonoco Products. Tyco makes automatic fire sprinkler devices, printed circuit boards, underwater communications cable and flexible packaging materials. Sonoco is a specialty producer of composite cans, plastic grocery sacks and wooden spools for wire and cable. If that sounds boring, note that Sonoco, with very little debt, earned over 14% on shareholders' equity last year, second only to Ball.

For the big packaging companies, with so much of their assets committed to glass, the plastics challenge is no joke. The assault began in a small way after World War II in stopett deodorant packages, and in the early Sixties gained momentum in the bleach market. But it really gathered force in 1977, when the two-liter PET (polyethylene terephthalate) bottle, aimed at soft drinks, was introduced.

Prior to the introduction of the PET bottle, Monsanto in 1973 came out with a plastic soft-drink bottle. It was made with a material called Lopac, which was believed to contain possible cancer-causing agents. It was subsequently taken off the market. The PET bottle was developed using a different resin that has not caused any problems with the FDA. The PET bottle protects against light and climatic changes; however, all the printing is done on an attached label and not directly on the bottle. From nothing, two-liter PET bottle shipments rose to about 500 million units in 1978, and to 2.5 billion in 1982.

There are signs of overcapacity in the two-liter PET market: Prices have been soft. But the fact remains that Dorsey Corp. (sales: $450 million), which has been able to hang on to about 30% of that market, earned nearly 14% on equity in the latest 12 months. That's an impressive improvement on its five-year average and better than twice the industry average.

The new bottle laws are yet another headache for glassmakers. In New York State, retailers must now charge a minimum five-cent deposit on every soft-drink or beer container sold. The retailers must then refund that nickel on every container brought in. This is a major headache for the retailers, who must inventory the old containers. To ease the pain, they can be expected to stock lighter-weight cans and plastics that don't break—in place of glass, which does.

Plastics have been less successful competing with metal cans. In the soft-drink market in 1983, plastics' 22% market share pared that of metal cans from 30% in 1977 to 26%.

This could change, however. In 1981, Dorsey began shipping a half-liter (16.9 ounce) PET bottle. This would undoubtedly have chipped away at both glass and cans had it not been for production snags that kept its price around 20% above glass' price. But most of the production problems have been worked out, and the smaller PETs' volume should increase in 1984. Again, the company to watch is little Dorsey, which has 50% of the half-liter PET market.

Although Owens-Illinois has a chunk of the PET market, for the most part the old-line companies find themselves out in the cold, sweating off uneconomic assets. Continental Group, which over the last five years earned a respectable 12.5% return on equity, has unloaded $1 billion worth of assets over the last two years. "We have finished cutting the barnacles off our hull and we're ready to set sail," says Continental Chairman and CEO Bruce Smart. Also in CG's writeoffs was its two-liter PET bottlemaking business, allegedly because Smart thinks the PET bottle has already reached the saturation point. Continental, says Smart, will concentrate on more specialized, and less competitive, plastic products like household and food containers. Smart also plans to expand Continental's growing life insurance subsidiary, which has over $1.7 billion in assets.

Heavily leveraged American Can, with a dismal 4.3% five-year-average return on equity on the industry Yardsticks, is also redeploying assets—for obvious reasons. It is concentrating

Packaging

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Tyco Laboratories	1	26.5%	13.2%	0.6	1	14.5%	8.9%	3.4%	1	31.2%	1	21.6%
Sonoco Products	2	16.9	14.2	0.2	2	13.8	11.4	4.8	3	15.5	3	12.3
Ball Corp	3	16.5	16.2	0.5	3	10.8	11.0	4.3	4	14.0	2	13.3
Stone Container	4	14.7	1.6	0.8	7	8.6	1.4	0.6	7	10.8	6	6.7
National Can	5	12.6	5.5	0.4	5	9.1	4.8	1.2	8	9.7	4	10.6
Continental Group	6	12.5	9.5	0.5	6	8.8	6.9	3.6	12	7.4	5	7.2
Crown Cork & Seal	7	12.1	7.9	0.0	4	10.6	6.9	3.3	10	7.5	7	6.2
Dorsey	8	9.9	13.6	0.5	8	7.4	10.2	2.6	2	15.5	8	6.0
Bemis	9	9.6	6.0	0.4	9	7.1	5.5	1.5	14	2.0	9	5.0
Owens-Illinois	10	8.6	2.6	0.4	10	6.3	2.9	1.0	10	7.5	10	1.6
Brockway Inc (NY)	11	7.3	4.5	0.3	11	6.0	4.2	1.2	5	12.0	11	–4.1
Anchor Hocking	12	7.1	def	0.3	12	6.0	0.1	def	9	8.0	12	–5.8
American Can	13	4.3	6.7	0.7	13	4.2	6.5	2.3	13	6.0	13	–17.7
Kerr Glass Mfg	14	1.5	def	0.5	14	4.6	def	def	6	11.9	14	–36.9
Industry medians		11.0	6.4	0.5		8.0	6.0	1.9		10.3		6.1
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
def: deficit.

on multilayer plastic bottles for such customers as Heinz ketchup. American also produces laminated tubes for toothpaste, and has begun marketing chewing-gum-in-a-tube, Pubble Gum, for Wrigley. But don't expect overnight growth. However, says Dave Parker, executive vice president in charge of American Can's $2.2 billion packaging business: "We are looking at the medical and pharmaceutical areas for immediate growth." Meanwhile, recently appointed Wall Street-bred Vice Chairman Gerald Tsai Jr. has been adding to American's trendy financial services segment *(see* Forbes, *Sept. 12, 1983)*, and major acquisitions outside of packaging, financed by the sale of existing assets, are a distinct possibility.

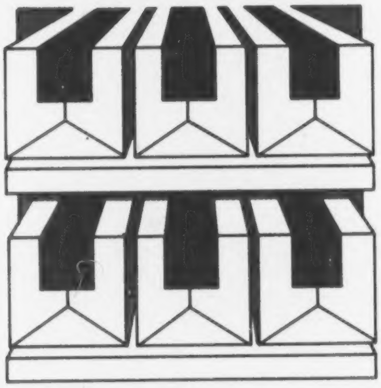
Compare that with National Can, which for the last five years has a return on equity three times that of American Can. It has done so by sticking to and improving on the packaging businesses it knows. Trendy acquisitions? National Chairman and CEO Frank W. Considine paid a rock bottom, below book $58 million for four glassmaking plants from Kerr Glass in September. After all, the price of oil, and hence plastics, won't necessarily stay depressed forever. Around 50% of the Kerr plants' capacity was dedicated to Anheuser-Busch. National expects to sustain those sales levels. A natural for National, which already did a substantial can business with Anheuser. Says Considine: "We figured that, since many are deemphasizing glass, now is the time to buy in." Considine is betting that a declining commodity market becomes in time a specialty market. "We see beer as the last beverage to go plastic," he says.

Considine may be right. But for now the advance of plastics looks unbeatable. Plastics captured a large segment of the edible oils markets last year. Next is booze: Jim Beam recently began offering consumers in New Jersey, Nevada and Arkansas bourbon in a 1.75-liter plastic bottle from Continental Group. Several California vintners are testing wine in three- and four-liter plastic jugs. "Plastics," says Merrill Lynch's Palm, repeating *The Graduate's* exec, "has the potential to take over everything."

For a while, anyway. ■

It costs more and more money to stay alive in the wholesaling game. And so the wholesalers dwindle down. . . .

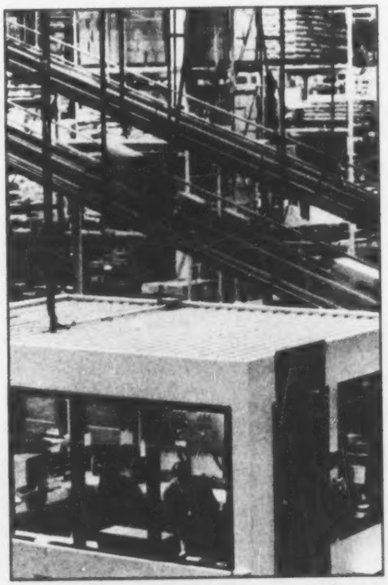
Wholesaling



By Richard Greene

FOR WHOLESALERS productivity isn't meaningless cant that is bandied about by corporate consultants who really don't know much about running a business. It is what you do when you need to survive. In a business where profit margins generally run around 1%, there isn't much room for error.

No surprise, then, that cost-cutting efforts among wholesalers seem to have been rewarded in 1983. It was a year in which a practically nonexistent inflation rate for food products—certain products like pork and chicken even saw a certain amount of disinflation—combined with 5% or 6% increases in costs to squeeze many food wholesalers. "We're dealing in small fractions because of our margins," says Robert Cohn, chairman of CFS Continental. "If there was no inflation in product line or operating expenses, then we'd be okay. But when operating expenses are going up and the products you sell do not. . . ."



Fleming Cos.' Oklahoma City warehouse
An electronic umbilical cord.

Yet medians on both return on equity and return on total capital dropped a minimal tenth of 1%. While a few firms, notably Farm House Foods and its 51%-owned Scot Lad Foods—two of the highest debt-to-equity ratios in the industry—suffered greatly, most of the rest emerged from the year in good shape.

A quick glance at 1982's industry rankings shows that the food wholesalers racked up a median 0.8% net profit margin, the exact margin the industry showed in 1983. So, although productivity gains in this industry may not have shown themselves with crystal clarity this past year, they were there. They had to be, for the industry to make up that extra 5% or 6% in costs.

"The security analysts see a falloff and are concerned," sums up Richard Harrison, chairman of Fleming Cos. "But what they don't realize is that the bottom line has improved because the real dollar gain is higher today than it was a year ago. A 5% gain on a zero rate of inflation is better than an 11% gain and 10% inflation."

A point many investors and more Wall Streeters carelessly overlook. Somehow it takes a businessman to home in on the difference between taking in real money and writing up bookkeeping profits.

Meanwhile, even some of the firms on the low end of the Forbes Yardsticks are optimistic about next year. Jack Twyman, chairman of Super Food Services, which is ninth on our list based on five-year return on equity, but had the second-highest return on equity for the latest 12 months, can hardly get himself to talk about anything but confidence: consumer confidence, retailer confidence, wholesaler confidence. "We're seeing reluctance to invest at retail ebbing," he says. "While our customers have put off capital expenditures over the last few years, they feel now is the time to expand their locations and invest in the future of their business."

Economic recovery seems to be rippling through the types of items wholesalers are moving. "It's going from the lower-priced products to the higher-value, higher-quality products," says Harrison, whose Fleming Cos. is a $5 billion food wholesaler based in Oklahoma City. "From the lower-priced frozen food dinner to the higher-priced, quality frozen-food dinner; from less expensive breads to more expensive baked goods."

All this portends higher volume, of course. But consumer sentiments are not the most durable evidence of good times to come. Improved labor contracts may be a somewhat longer-lasting bit of good news for the wholesalers. Contracts signed in the past year or so promised annual increases in the neighborhood of 4%, compared with almost 10% only three years ago. "That's a significant insurance policy for the future," says Harrison of Fleming Cos. "It's our single largest cost-saving factor," agrees Cohn, of billion-dollar-plus CFS Continental.

Still, after getting labor to accept lower wage increases, the next productivity gains are somewhat harder to come by. And a recovering economy is not enough by itself to spell success in this business. Think about it. If a firm has margins of 1% and it can pick up 5% of real, after-inflation growth, it's doing pretty well. But a 0.1% increase in its margins will bring twice that much profit to the bottom line. Clearly the route to real success is to increase margins at the same time as revenues.

For most wholesalers, future productivity gains seem to lie in the improved use of computers. Inventory turnaround is critical, and wholesalers are concerned about picking up not just weeks or days, but hours. To that end, most of the large wholesal-

Wholesalers

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Food distributors												
Super Valu Stores	1	26.8%	22.6%	0.6	1	18.5%	16.2%	1.3%	5	15.5%	2	20.4%
Sysco	2	19.7	18.2	0.4	2	15.4	13.9	2.0	2	18.6	1	20.7
Fleming Cos	3	18.2	17.1	0.6	5	12.8	11.1	0.8	7	13.6	6	11.7
Malone & Hyde	4	17.5	19.0	0.4	3	13.5	14.7	1.3	6	15.1	7	10.0
Flickinger	5	16.2	17.4	0.6	4	13.2	12.5	0.8	9	11.7	4	13.0
Nash Finch	6	14.4	13.4	0.4	6	11.5	10.9	1.0	10	10.7	9	5.0
CFS Continental	7	13.1	14.8	0.7	8	9.5	10.7	1.4	8	12.4	5	13.0
Wetterau	8	13.0	14.6	0.5	7	10.2	10.3	0.8	3	16.1	10	2.0
Super Food Services	9	12.8	19.3	1.3	10	8.8	10.0	0.5	4	15.6	8	6.3
Farm House Foods	10	10.5	1.3	1.9	9	9.4	6.8	0.0	1	38.7	12	–4.7
Pac Gamble Robinson	11	8.9	6.3	0.8	11	7.7	6.4	0.4	11	7.5	11	–3.0
Di Giorgio	12	8.0	5.4	1.0	12	6.2	4.8	0.7	12	5.9	3	14.3
Scot Lad Foods	13	3.8	def	1.1	13	4.4	2.3	def	13	1.9		D–P
Medians		**13.1**	**14.8**	**0.6**		**10.2**	**10.7**	**0.8**		**13.6**		**10.9**
Other wholesalers												
Phibro-Salomon	1	36.5%	25.1%	0.4	1	28.1%	19.0%	1.5%	1	31.3%	2	29.3%
Bergen Brunswig	2	19.5	19.4	0.6	4	15.2	15.4	1.3	3	19.8	1	40.6
Std Comml Tobacco	3	19.4	13.9	0.3	2	16.3	13.2	2.1	2	22.7	6	12.7
Universal Leaf	4	19.0	17.8	0.2	3	15.8	13.9	3.6	11	7.6	5	14.6
Alco Standard	5	18.0	14.3	0.4	6	13.1	10.8	2.0	4	16.4	7	10.1
Amer Hospital Supply	6	17.1	18.2	0.1	5	15.0	16.3	6.8	5	15.1	3	15.4
Dibrell Brothers	7	15.4	20.4	0.3	8	12.1	13.8	2.9	8	9.0	4	14.7
McKesson	8	15.3	12.8	0.5	9	10.6	9.6	1.5	10	8.0	9	6.1
Univar	9	14.8	7.2	1.1	10	9.7	5.9	0.7	9	8.4	8	8.7
Lowe's Companies	10	14.7	19.5	0.3	7	12.1	16.2	3.2	6	11.7	10	4.9
Amfac	11	8.4	def	0.8	11	6.3	def	def	7	10.2	11	–2.1
Medians		**17.1**	**17.8**	**0.4**		**13.1**	**13.8**	**2.0**		**11.7**		**12.7**
Industry medians		**15.4**	**16.0**	**0.6**		**12.1**	**11.0**	**1.3**		**13.0**		**11.7**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
D–P: deficit to profit; not ranked. def: deficit.

ers have installed complex inventory control computers, not only in their own operations, but in their clients' operations as well. When the store manager at your local supermarket decides he needs to order Wheaties, he doesn't have to talk with anyone. He just waves an electronic wand over the product label on the shelf, and then uses the telephone lines to relay that order to the wholesaler. With such instantaneous ordering the wholesaler can anticipate his customers' needs much more effectively. In addition, he doesn't have to keep quite as much in stock and saves on his financing expenses.

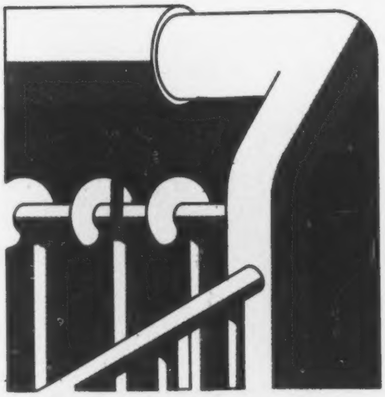
There's even another, less obvious advantage to the wholesalers in linking up directly with their customers: It cements the marriage between wholesaler and retailer. Ten years ago, a retailer could change his supplier at the drop of a price. Now, however, if he's put all sorts of time and money into developing an electronic linkage, he's not going to make a switch quite so frivolously.

Trouble is, all this technology is pretty expensive, especially to a business where even a giant like Super Valu Stores earns under $80 million. As a result, the shakeout in wholesaling continues, since small companies cannot stay competitive and large firms are only too glad to grab up more market share.

The numbers are staggering: In the last ten years, the number of wholesalers able to serve the supermarket industry has gone from some 1,000 firms to only about 400 according to Walter Heller, research director of *Progressive Grocer*, a trade journal. Says Cohn, "The ongoing move toward consolidation is directly related to the financial capabilities of small companies. If we invest half a million in software programs, we can amortize that over a billion in sales. It's pretty hard to invest half a million when you're only doing $8 million in sales."

"I get calls almost on a daily basis," says Fleming's Harrison, an active buyer of wholesaling operations, "from smaller wholesalers who just can't make the investment to stay competitive." ■

Vicious circle: The supermarket chains build bigger stores, which need more volume, which means cutting prices, which then crimps profits.



Supermarkets

By Richard Greene

IF YOU EAT, the good news is that food prices went up only 1% for the 12 months ending in October, about one-third the percentage increase in the Consumer Price Index. If you follow the supermarket business, the bad news is that one of the reasons for the small price jump in food is that supermarket owners held down prices, which cost them profits.

BUTTER 99
APPLE SAUCE 99
ORANGE JUICE 89
CHEESE PIZZA 89
SHOULDER VEAL CHOPS 2.59 LB
SLOAN'S

Front window of a New York supermarket
"You cut prices to meet someone else, and . . . you're down the sewer."

Return on equity, the Forbes Profitability Yardsticks show, declined in the latest 12 months against the five-year averages for most major and regional chains, including four of the top five majors and all the top five regionals. The problem seems to be that the supermarket chains invest heavily in new stores, giant stores selling everything from corned beef to caviar, from jeans to jacksaws. They need huge volumes to make these properties pay. Since a new store doesn't create more volume per se—nobody eats more because Safeway opens a store in the neighborhood—it means business must be gotten by luring customers from older stores, and cutting prices is the easiest way.

It can work. Stop & Shop stores in Connecticut were giving away a can of tuna fish and a roll of paper toweling with every order of $7.50 or more. Stop & Shop also recorded an impressive profit surge, running 22.3% return on equity in the latest 12 months, against a 17.1% five-year average. But the price wars last year generally are blamed for the relatively poor showings in the industry.

That is not to say that there were many disasters in the industry in 1983. Industry medians were down only slightly, with a fair number of success stories to be found. A&P seems to be turning around again, although poor past performance keeps it in its now-traditional spot at the bottom of the Forbes rankings. American Stores jumped from fourth place to first on the list, as its combination stores, which emphasize nonfood items, helped push up margins. At the same time, Lucky Stores, the $8 billion (sales) California-based chain, saw its return on equity for the latest 12 months jump from 16.5% in 1982 to a healthy 21.1% in 1983.

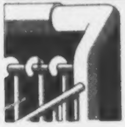
Ironically, only a year ago Warren McCain, chief executive officer of Albertson's, a major chain headquartered in Boise, said: "All the retailers are a little smarter now, and I guess none of them can afford the price wars of the past." That may have applied to Albertson's, but McCain was wrong as far as the industry was concerned. That's because of the pressure that

Supermarkets

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Major chains												
American Stores	1	23.6%	25.6%	0.7	2	15.5%	14.2%	1.3%	1	52.8%	1	23.2%
Albertson's	2	22.4	19.0	0.6	4	13.6	13.0	1.5	3	16.9	3	16.9
Lucky Stores	3	22.0	21.1	0.7	3	13.7	13.5	1.4	4	14.9	9	8.3
Supermarkets General	4	21.0	19.3	0.9	5	11.8	12.1	1.2	7	11.3	2	21.6
Winn-Dixie Stores	5	20.2	19.2	0.2	1	17.4	16.9	1.6	6	12.1	8	10.4
Stop & Shop Cos	6	17.1	22.3	1.2	9	10.0	11.5	1.6	10	8.1	6	14.0
Jewel Cos	7	17.0	16.4	0.6	7	10.7	10.3	1.5	8	9.9	4	16.7
Southland	8	17.0	17.4	0.8	8	10.5	11.5	1.7	2	21.0	5	14.9
Kroger	9	15.8	11.8	0.7	6	11.0	9.3	1.0	5	13.0	7	13.9
Safeway Stores	10	13.4	14.5	1.2	10	8.7	8.9	0.9	9	9.3	10	3.7
Great Atl & Pac Tea	11	def	8.0	0.8	11	def	6.5	0.5	11	–3.7	11	D–D
Medians		17.1	19.0	0.7		11.0	11.5	1.4		12.1		14.0
Regional chains												
Big Bear	1	48.9%	35.9%	1.5	4	16.4%	17.3%	1.4%	11	12.6%‡‡	4	30.2%‡‡
Bruno's	2	35.3††	28.8	0.2	2	23.5††	22.3	2.6	4	18.3‡	3	31.9‡
Food Lion	3	31.9	26.9	0.2	1	25.7	21.2	2.4	1	32.1	5	28.9
Natl Convenience Stores	4	27.5	23.1	1.6	6	13.5	11.1	2.3	3	19.6	7	24.4
Big V Supermarkets	5	23.3	18.2	0.5	5	15.8	12.5	1.3	6	17.5	8	21.5
Cullum Companies	6	21.4	16.8	0.9	7	12.5	10.7	1.2	9	13.4	6	25.3
Weis Markets	7	20.6	19.6	0.0	3	20.6	19.5	5.6	13	12.5	14	15.6
Pneumo	8	20.4	27.2	0.7	9	12.2	14.1	2.7	7	15.3	11	16.9
Giant Food	9	19.7	22.3	0.7	8	12.3	14.4	2.0	10	12.7	10	18.5
Hannaford Bros	10	19.5	20.2	1.0	10	11.0	13.1	1.5	17	11.1	15	14.4
Circle K	11	17.4	27.9	0.7	11	10.7	16.3	2.3	4	18.3	19	7.4
First Natl Supermkts	12	17.3	16.6	1.5	18	9.2	9.3	0.6	2	20.9	16	13.0
Waldbaum	13	15.9	15.9	0.9	12	10.6	10.7	1.0	12	12.5	12	16.5
Seaway Food Town	14	15.7	9.6	1.0	15	10.3	7.1	0.7	14	12.4	17	12.2
Marsh Supermarkets	15	15.7	9.4	1.2	17	9.3	6.5	0.7	19	11.0	18	11.6
Ruddick	16	14.7	15.0	0.6	14	10.3	10.8	2.0	16	11.2	13	16.3
Thriftimart	17	12.3	7.5	0.2	13	10.5	6.7	0.9	22	7.3	2	38.3
Penn Traffic	18	12.2	13.0	0.6	16	9.6	9.6	1.4	8	13.7	21	3.3
Munford	19	11.4	13.6	0.7	21	7.4	10.1	1.6	24	3.5	9	20.6
Godfrey	20	11.0	6.1	0.8	20	8.1	6.0	0.4	18	11.1	22	1.4
Arden Group	21	10.0	6.4	1.2	22	7.1	6.0	0.4	25	0.0		D–P
Pueblo International	22	9.3	7.6	1.2	23	7.1	6.0	0.6	26	–2.0		D–P
Shopwell	23	9.0	10.5	1.3	24	6.7	7.7	0.5	20	10.6	1	163.0
King Kullen Grocery	24	8.7	11.1	0.0	19	8.1	10.2	0.7	15	12.1	20	5.4
Fisher Foods	25	8.0	3.4	0.4	25	5.2	3.4	0.5	27	–5.3	23	–9.6
Foodarama Supermkts	26	2.2	3.8	0.7	26	4.1	5.4	0.2	23	4.6	25	–26.1
Borman's	27	1.5	0.8	0.8	28	3.1	2.5	0.0	21	9.1	24	–25.3
Allied Supermarkets	28	def	4.0	0.2	27	3.5	5.9	0.5	28	–8.7	26	D–D
Pantry Pride	29	def	NE	1.4	29	def	6.3	0.7	29	–14.6	26	D–D
Medians		15.7	13.6	0.7		10.3	10.1	1.0		12.1		15.6
Industry medians		16.5	16.2	0.7		10.5	10.5	1.3		12.1		14.7
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
††Three-year average. ‡Four-year growth. ‡‡Three-year growth. D–D: deficit to deficit. D–P: deficit to profit; not ranked.
def: deficit. NE: negative equity.



has been building for several years now with the emphasis on larger and larger stores. Five years ago the average supermarket was 25,000 square feet. Today the average is more like 32,000. Kroger's latest prototype is 45,000. The game then becomes one of grabbing volume away from your competition, which, as noted, inevitably leads to price-cutting.

What's more, the $6 million-to-build superwarehouse store, up to 60,000 square feet and boasting little service and the lowest prices, sets off violent price competition wherever it appears. When Super Valu Stores, a food wholesaler, opened one of these warehouse stores, dubbed a Cub Foods store, in Green Bay, Wis., 15 other supermarkets closed within a few months, according to Robert Grottke, of Arthur Andersen, who follows the industry.

"The problem of grocery retailers seems to be that they overreact to competitive situations," says Wallace Iott, chairman of Seaway Food Town. Of course, anyone who doesn't react might be out of business, too. "People cut prices to meet you, and you cut prices to meet someone else, and pretty soon you're down the sewer. It boils down to the fact that the borderline store which is tightly financed will be hurt in these battles."

California-based Thriftimart, a $503 million (sales) firm with half its sales in supermarkets and half in food wholesaling, is considering getting out of the retail business. "In this market over the last two years it's been almost exclusively a price war," says Roger Laverty III, the company's vice president. "In the areas of advertising and operating efficiencies we cannot possibly match the 100-store chains. It's been very tough for us, and we feel we should be concentrating on the other end of our business."

One answer to the price war has been to sell higher-priced or higher-quality goods—bakeries, fish departments or gourmet foods, all within the supermarket. "Whether customers are from high income, middle income or low income, they like the idea," says Alvin Dobbin, senior vice president-operations for Giant Food, a Washington, D.C. chain that emerged from some vicious competition a couple of years ago with its market share up from 32% to 40%.

The difficulties begin when you have to man these upscale counters. Says one East Coast supermarket executive: "The problem with a high-service store is that, for every incremental dollar of sales, you also have an incremental cost to achieve it. These stores have added an expensive labor component to these operations and I think they'll start retrenching."

"If you can generate enough volume and price properly you can cover cost," replies Giant's Dobbin. "It's not inexpensive, but it's the kind of thing that can generate volume."

Why the different approaches? Because the marketplace is changing quickly and there may be no single way to deal with the change. Iott of Seaway Food Town, for example, says: "With so many women working, we find a lot more men shopping than normal, which we don't like. Men have a tendency to buy what their wives tell them to buy. Women are better impulse shoppers. The best shopper is a man, wife and children. The kids might throw a box of candy or cereal in the cart, and the husband throws in a six-pack of beer and a salami. But the man on his own follows the shopping list."

Is that really true? Who can tell? What is certain is that people have to eat. After that, it's anybody's game. ■

Bottle babies

Last fall New York became the ninth state to pass a so-called bottle bill, which requires a deposit on all cans and bottles for soft drinks and beer purchased in the state. The environmentalists rejoiced. Now, they hope, New York will be a cleaner place, as an incentive is created to keep old bottles and cans from littering the streets and sidewalks.

But New York City's supermarkets aren't rejoicing. "It's a disaster," says Howard Tisch, executive secretary of the Greater New York Metropolitan Food Council. "There's time required for the sorting procedure, the bottles take a substantial amount of space, and you have sanitary problems."

Still, the storemen are complaining about something they used to do without complaint. Before the creation of no-return bottles, most containers were returned. The retailers' answer: Bottle sorters didn't cost $5.50 an hour in the old days.

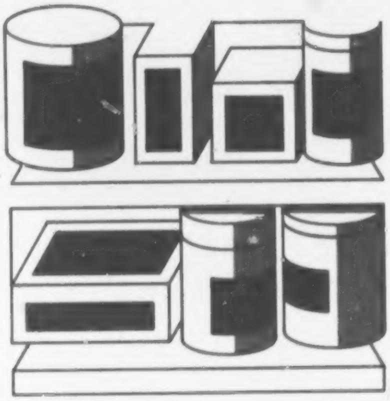
For every bottle or can redeemed—and there were over 3 billion containers sold last year in metropolitan New York—a store gets back 1.5 cents from the bottler. The supermarkets say it costs them more like 3 cents to redeem each bottle or can. If that sounds like small change, look at one New York retailer, Shopwell, which has 64 stores in New York and Connecticut, another bottle-bill state. Shopwell says it redeems about 800,000 containers a week, which amounts to over 40 million a year. Multiply that times a penny and a half per container and you have a cost to the chain of $600,000, and Shopwell earned only about $1.4 million in 1983's first three quarters.

Carting off returned bottles and cans
1.5 cents a bottle is hardly enough.

Says Glen Rosengarten, the firm's chief operating officer, "Everyone loses all the way around. The beverages ultimately cost more money to the consumer. It's a dead loss to us, and a real economic burden."

But then, possibly, Mr. Rosengarten never got a flat tire on a cold winter's night after having run over a beer bottle in the street. Bottle laws are probably here to stay, and retailers would do well to find ways to cut the costs of collection.—R.G.

"A close attention to your shop and application to business will always secure more than an equal share because every competitor will not have those qualities."



Retailing

By Howard Rudnitsky

IF 1983 WASN'T THE BEST of times, it was a reasonable facsimile. Fueled by the economic recovery and growing consumer confidence, dollar sales in the nation's major general retailing chains showed gains of 15% and better over the year before. Better yet, the dramatic slowdown in the push on costs and lower interest rates, which slashed the costs of carrying inventory, produced a profit bonanza. The median returns on equity and total capital in the last 12 months, the Forbes Yardsticks show, were running more than 10% ahead of the five-year averages and far ahead of all industry performance. And the end isn't in sight.

SEARS FINANCIAL NETWORK

Selling sofas and security at Sears
At last, all systems go!

At Sears, Roebuck, Edward Brennan, chairman of the $23 billion (sales) merchandising group, beams: "Our durable goods business, particularly appliances, has been strong all year. Since October the strength has spread to all our major lines of business. It's the first time in more than two years that has happened. There is no question business is a lot better than a year ago, and we expect it to stay that way in 1984 as well."

In only nine months of 1983 Brennan had pushed merchandising profits (excluding credit interest earnings) to $320 million, or 200% ahead of the year before, and record profits for the year ending Dec. 31 are as good as gift wrapped after a merry Christmas at Sears' 816 department stores.

"When you've streamlined your operations and improved many things, as we have in the last couple of years, and then when you get the volume to go with it, there's a great deal of leverage in our business," Brennan says. Among those improvements: product lines like computers and financial services and a heavier inventory of the higher-margined goods Sears wants to sell instead of a little of everything. Brennan also plans to spend $1.7 billion over five years and make over his 600 full-line stores so they project today's popular specialty-shop look.

The nation's largest discounter, K mart, with sales pushing toward $19 billion in the fiscal year ending Jan. 31, 1984, and profits probably doubling last year's $262 million, is also trying to upgrade its image, with refurbished stores and more nationally branded merchandise.

But leading the pack in sales gains among the billion-dollar-plus chains, as usual, was Sam Walton's discount juggernaut, Wal-Mart. His 642 stores in small cities and towns in 19 southern and midwestern states are chalking up a 35% sales gain, to push past $4.5 billion, and probably a 50% earnings increase on top of the sizable increase recorded in the 1982 recession. That's after a two-year effort to digest 92 Big K stores (no relation to K mart), acquired in 1981 and once losing money or barely profitable.

At Dayton-Hudson (second in growth and profitability on the Forbes Yardsticks), where sales are running better than 20% ahead of 1982, President and CEO Kenneth Macke says: "In 1983 our department store business has been rolling real well. The consumer is buying fashion apparel and many other lines like electronic goods. Coupled with strong sales growth in our discount, specialty and soft-goods promotional chains—Target [the discount chain], Lechmere [electronics] and Mervyn's [soft goods]—the outlook to us is optimistic." That goes for 1984, too. "Consumer confidence and incomes have been restored to much higher levels," Macke says, "so it looks like two back-to-back good retailing years."

CHICKEN McNUGG
NOW
McDonal

McProfits
If beef prices rise, try chicken.

Even F.W. Woolworth, which bit the bullet and ended its Woolco discount operation in 1982, was pushing up profit margins and looking like a survivor. And Montgomery Ward, the longtime moneyloser—which, because it is part of the Mobil empire, isn't listed in the Yardsticks despite its $5.5 billion in retail sales—appears to have at last steered to break-even under CEO Stephen Pistner, brought over from Dayton-Hudson several years ago.

But better times don't necessarily mean less competition. Macke of Dayton-Hudson says that the country is probably still overstored: "You look at all the different kinds of retailing operations that have come along in recent years, over the past 25 years really. Retail square-footage has grown faster than the number of customers, and that has created a very competitive environment."

Adds Francis Rooney Jr. of Melville Corp. (shoes, clothes, drugs, toys): "Everyone seems to be looking to get into retailing markets or the segments that others are already in, like into off-price branded apparel and specialty retailing. But that is continuous. In the end the better retailers will win out, and some others are going to get hurt."

So who is going to get hurt? Will it be the department stores with their high costs? The discounters at the cheap-stuff end of the scale? The giant chains that seem to depend on ever-

The flap over fair trade

Department stores are losing some business to specialty chains, discounters and off-price outlets. The rawest rub is in brand-name clothing, those Calvin Klein or even-tighter Jordache jeans. These high-priced items have produced pay-the-rent profits for the big stores. They haven't liked losing sales and cachet to their mark-it-down competitors.

So it's no surprise that the department stores struck back on legal and political fronts. Retailers such as Federated, the nation's largest department store chain (Bloomingdale's, Filene's, Bullock's, Abraham & Straus), Allied Stores (Jordan Marsh, Brooks Brothers, Bonwit Teller) and others are privately and publicly threatening suppliers: Sell the same ritzy labels to discounters and the off-price gang and you shall darken our doorways no more.

The lower-priced chains such as Toys "R" Us, Burlington Coat Factory Warehouse and K mart see this as an attempt to freeze them out of those fancy labels and allow the department stores to keep the prices and markups high. Lawsuits ensued. Toys' feisty chairman, Charles Lazarus, in 1983 sued Federated Department Stores (which just happens to be competing directly against Lazarus' new Kids "R" Us children's clothes chain) on antitrust grounds and also sued two apparel suppliers, Izod (anything with an alligator on it) and Absorba (children's clothes). There were cross suits and, recently, the suits were dropped. Burlington Coat also sued Federated. In 1982 Jordache sued K mart for selling "inauthentic"—read low-priced—apparel. That suit, too, was settled.

In 1983 K mart struck back politically, encouraging more than 1 million customers to sign its petition demanding that price maintenance should be considered against existing law and the will of Congress. This aimed at countering the feeling that the department stores and manufacturers had the ear of William Baxter, former head of the Justice Department's antitrust division. Baxter was on record as saying that not all retail price maintenance arrangements should be considered illegal and he asked the Supreme Court to relax current resale price maintenance law in a specific case, *Monsanto* v. *Spray-Rite*, which involves herbicides. He argued the Court should do the same in other cases.

An infuriated Congress then sent legislation to President Reagan specifically prohibiting the Justice Department from using funds to overturn or change laws banning resale price maintenance.

But the battle between the department stores and the discounters will not be decisively won or lost in the courts. One retailer with a foot in both camps, Kenneth Macke, president of Dayton-Hudson—with department stores and discount stores and low-prices-on-ritzy-labels stores—puts it this way: "In the end it's the consumer who is going to decide where and whose merchandise he or she wants to buy, not suppliers or retailers. Consumers don't know or care about profit margins. They are going to opt for lower prices and better value. The store with good value and selection is going to survive."—**H.R.**

increasing sales? It's not the label but the style, says Rooney. He points to Edward Finklestein, CEO of Macy's, leader in profit growth among the department stores. "Finklestein's got excitement into his department stores that other department store merchants don't seem to be able to duplicate. It's more important to look at who are the best merchants in their category versus the mediocre merchants. No one group is likely to knock the other group out. There will be a place for all kinds of superior retailers, but not for inferior ones."

That means the recovery has bought time for a number of subpar retailers, but unless they find the proper blend of marketing skills, they will have their backs to the wall the next time business falters. Francis Rooney quotes a letter written in 1773 to Sam Franklin, a retailer in Philadelphia. Business wasn't too

Specialty retailers

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Drug chains												
American Stores	1	23.6%	25.6%	0.7	6	15.5%	14.2%	1.3%	1	52.8%	3	23.2%
Rite Aid	2	22.6	22.6	0.1	1	20.2	20.1	4.2	5	17.9	4	21.6
Revco D S	3	20.8	21.3	0.1	3	17.7	18.2	3.8	4	18.9	5	19.0
Walgreen	3	20.8	23.2	0.2	5	15.7	18.8	3.0	10	9.8	1	24.1
Pay Less Drug NW	5	20.7	18.8	0.8	7	13.1	11.4	2.6	2	22.6	7	17.3
Longs Drug Stores	6	18.9	17.5	0.0	2	18.8	16.9	2.9	7	15.3	9	11.2
Jack Eckerd	7	17.1	13.5	0.0	4	16.6	13.1	3.1	3	18.9	8	11.7
Peoples Drug Stores	8	16.4	17.8	0.5	8	13.1	13.0	1.7	8	14.1	2	23.5
Thrifty Corp	9	16.1	18.4	0.9	9	11.6	12.1	1.9	9	11.0	6	18.5
Pay'n Save	10	13.4	13.3	1.2	10	10.0	9.2	2.0	6	16.2	10	4.8
Medians		19.8	18.6	0.4		15.6	13.7	2.8		17.1		18.8
Fast food chains												
Wendy's International	1	24.8%	19.5%	0.4	1	20.0%	14.7%	7.8%	1	42.0%	2	24.3%
McDonald's	2	22.8	21.7	0.6	2	13.3	13.3	11.4	5	15.9	4	18.4
Marriott	3	21.0	20.3	1.3	5	10.8	9.3	3.8	3	18.6	1	26.6
Jerrico	4	17.8	14.0	0.5	3	13.0	10.8	4.6	2	22.0	3	18.7
Denny's	5	17.5	17.1	1.0	6	10.3	10.7	3.8	4	18.3	6	9.9
Saga	6	15.6	22.3	0.4	4	11.2	17.3	2.4	6	14.4	5	10.9
Medians		19.4	19.9	0.6		12.1	12.1	4.2		18.5		18.6
Other specialists												
Tandy	1	45.2%	29.3%	0.1	1	28.8%	25.9%	11.2%	9	19.2%	1	34.3%
Limited	2	33.2	40.0	0.5	3	23.8	25.5	5.1	1	31.8	3	28.9
Toys "R" Us	3	25.5	20.6	0.1	6	21.1	19.3	6.2	4	27.9‡	2	32.6‡
Melville	4	25.3	21.6	0.2	2	23.9	21.2	4.2	10	18.0	8	16.3
Avon Products	5	23.5	14.9	0.2	4	23.1	11.7	6.0	15	12.1	17	3.4
Petrie Stores	6	21.8	16.6	0.0	5	21.5	16.1	7.3	18	9.4	12	6.4
Cole National	7	20.8	16.5	0.8	10	14.3	11.3	2.5	2	29.6	6	18.2
Payless Cashways	8	20.4	21.8	0.4	7	15.3	17.1	4.1	5	27.8	4	20.1
Service Merchandise	8	20.4	18.4	0.9	11	13.3	11.8	2.6	3	28.9	9	14.7
Nordstrom	10	18.0	18.6	0.5	12	12.9	13.5	5.1	8	19.9	7	16.9
Brown Group	11	17.5	17.5	0.2	9	14.4	15.1	4.4	17	9.4	5	19.1
Edison Bros Stores	12	17.1	15.0	0.2	8	14.4	12.8	4.0	16	9.9	13	6.0
Best Products	13	14.2	12.8	1.0	15	9.3	6.6	1.6	6	24.7	14	5.7
Gordon Jewelry	14	14.2	9.2	0.4	13	12.1	8.1	4.2	11	16.5	10	12.0
General Host	15	13.9	13.1	0.9	19	8.3	7.6	2.1	23	–2.8		D–P
H J Wilson	16	12.1	5.3	1.2	17	8.9	5.2	1.3	7	22.6	16	3.6
Morse Shoe	17	11.5	15.0	0.6	14	10.0	11.5	3.2	14	12.4	19	3.0
Levitz Furniture	18	11.2	12.2	0.9	20	7.8	8.5	3.0	22	5.3	11	11.8
ABA Services	19	10.9	10.2	0.5	18	8.7	8.5	1.8	13	13.3	18	3.1
Zale	20	9.7	5.0	0.4	16	9.1	5.4	2.1	21	5.6	15	4.6
Pittston	21	4.7	def	0.4	23	4.6	def	def	19	7.8	21	–23.4
Beneficial Corp	22	4.1	9.1	4.0	21	5.1	5.9	3.8	20	5.8	20	–19.2
Genesco	23	3.9	def	1.6	22	4.7	3.7	0.2	24	–7.2		D–P
Wickes Cos	24	def	def	NE	24	def	def	def	12	15.8	22	P–D
Medians		15.7	15.0	0.5		12.5	11.4	3.5		14.6		9.1
Industry medians		17.7	17.3	0.5		13.1	12.0	3.2		16.4		15.5
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. D–P: deficit to profit; not ranked. def: deficit. NE: negative equity.

good, and the competition was tough. Sam's brother, Ben, wrote him from England: "I would not have you discouraged at the little dullness of business, which is only occasional. A close attention to your shop and application to business will always secure more than an equal share because every competitor will not have those qualities. Some of them, therefore, must give way to you, and the constant growth of the country will increase the trade of all, that steadily stand ready for it."

Specialty retailers

Specialty chains echoed the success of the general retailers with profits swelling 20% to 25% over 1982, though laggards there were. Take the retail drug chains. Overall, the Forbes Yardsticks show, drug chain profitability remained above the industry medians. An upsurge in highly profitable prescription drug sales produced sizable profit gains in chains such as Revco D.S., Walgreen, Pay Less Drug Northwest, Longs Drug and Pay'n Save. But Florida-headquartered Jack Eckerd had little earnings gain despite a 12% sales jump.

At the fast food chains, the griddles were sizzling again after more than a year on the back burner. They lured customers with new treats. McDonald's, for example, the industry sales ($3 billion) leader, successfully cooked up Chicken McNuggets to mix with its hamburgers. Arch competitor Burger King, owned by Pillsbury, turned up the heat with its name-thy-enemy (McDonald's) advertising, salad bars and cut-rate coupons to lure customers. Wendy's showing was respectable enough, but 1983 profit gains didn't match its five-year average, which has earned it the number one post in the Yardsticks.

Other specialty retailers like Tandy in electronics and computers, Toys "R" Us, Melville in shoes, apparel and drugs, Payless Cashways in home remodeling, and The Limited and Nordstrom in women's clothes continued to prosper in 1983. And Levitz Furniture, with a housing recovery at its back, has turned itself around.

But some haven't adjusted to changing times. Avon Products, in the postliberation era, has had trouble recruiting competent door-to-door saleswomen, and then they have trouble finding women at home to sell to. Avon's profit ratios on the Yardsticks are running at half its five-year average. Some of the catalog showroom firms, such as H.J. Wilson, and the jewelry chains haven't fully recovered from the recession. But if the pickup intensifies in 1984, even they may be swept along with it. ■

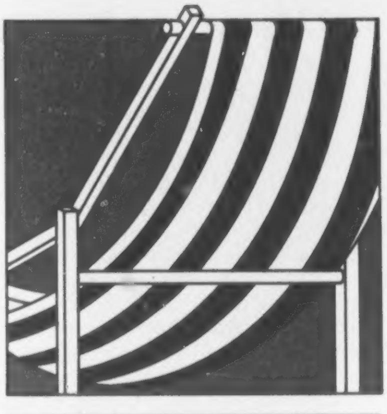
General retailers

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Department stores												
R H Macy	1	20.0%	22.3%	0.2	2	14.3%	17.1%	5.4%	5	12.8%	1	21.9%
Dayton-Hudson	2	17.9	16.5	0.5	1	14.7	12.6	3.4	2	19.1	5	9.3
Mercantile Stores	3	15.8	16.4	0.3	3	12.4	13.4	5.0	7	12.1	3	13.5
Dillard Dept Stores	4	15.1	20.8	0.8	8	9.3	12.8	3.7	1	19.6	2	16.8
May Dept Stores	5	14.5	16.3	0.5	5	10.0	10.7	4.2	10	9.8	7	7.8
Federated Dept Stores	6	14.2	14.6	0.3	4	11.6	11.4	3.7	8	10.2	6	8.1
Allied Stores	7	12.5	13.8	0.9	10	9.0	9.0	3.4	11	8.9	9	6.4
J C Penney	8	11.9	12.6	0.4	7	9.5	9.8	3.5	13	5.9	10	5.9
Strawbridge & Clothier	9	10.9	12.9	0.8	11	8.1	9.0	3.6	9	10.1	4	9.8
Carson Pirie Scott	10	10.7	11.7	0.9	12	8.1	8.3	2.2	4	13.4	11	4.2
Associated Dry Goods	11	10.6	12.9	0.6	6	9.7	10.5	2.8	6	12.6	8	7.5
Sears, Roebuck	12	9.9	13.3	0.6	9	9.2	10.9	3.5	12	6.9	12	1.8
Carter Hawley Hale	13	9.3	8.0	0.9	13	6.4	5.9	1.6	3	14.3	13	–2.2
Alexander's	14	1.4	7.9	1.1	14	2.7	5.3	0.9	14	5.7	14	–28.3
Medians		**12.2**	**13.6**	**0.6**		**9.4**	**10.6**	**3.5**		**11.2**		**7.7**
Discount & variety stores												
Wal-Mart Stores	1	33.1%	33.0%	0.7	1	21.5%	21.1%	4.0%	1	37.3%	1	35.6%
SCOA Industries	2	27.5	20.7	0.9	2	17.2	13.3	3.0	6	11.7	2	23.3
Heck's	3	14.6	6.3	0.7	4	9.7	6.2	1.6	2	16.8	5	10.0
Rose's Stores	4	14.0	21.3	0.1	3	12.4	18.9	2.5	8	7.0	4	21.9
Zayre	5	13.6	17.2	0.8	5	9.4	11.6	2.1	7	9.8	3	23.2
K mart	6	12.9	15.2	0.9	6	9.3	10.3	2.3	4	13.0	7	3.9
Household Intl	7	11.8	13.5	2.1	7	6.8	7.3	2.5	3	14.1	8	0.9
G C Murphy	8	7.9	11.1	0.5	8	6.3	8.2	1.8	10	5.7	6	4.9
F W Woolworth	9	4.4	14.1	0.5	9	4.2	10.4	2.6	11	4.3	9	–16.4
Cook United	10	def	def	2.1	10	3.0	0.7	def	9	6.4	10	D–D
HRT Industries	11	def	def	7.5	11	def	def	def	5	11.8	10	D–D
Medians		**12.9**	**14.1**	**0.8**		**9.3**	**10.3**	**2.3**		**11.7**		**4.9**
Industry medians		**12.5**	**13.8**	**0.7**		**9.3**	**10.4**	**2.8**		**11.7**		**7.5**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
D–D: deficit to deficit. def: deficit

Forget the disaster in videogames. Place your bets on the upturn in casinos. And, at long last, watch for one in the hotel business and the photographic business.



Leisure

By Barbara Ettorre

DISASTER STRUCK THE leisure industry in 1983. Cartridge-game manufacturers overestimated retail sales by some $1.3 billion and everybody choked on inventories. The take at the nation's coin-operated game arcades collapsed to $3 billion from $7 billion the year before. That was a body blow to Mattel and Warner Communications' Atari, to Bally in the coin-operated sector and to Milton Bradley. It was also bad news for Coleco. Its relatively late entry into the field helped keep inventories low, but even this might not protect it since sales have tapered off.

Travelers in a busy hotel lobby
Will they be here all year?

But don't read too much into the decline. It afflicted only one segment of the leisure industry. Elsewhere in this industry things remained pretty good. General Cinema reported a return on equity of 54.3%. Although most of this reflects a one-time capital gain from the sale of its Miami TV station to Taft Broadcasting in April, General Cinema's soft drink bottling and film exhibition businesses stayed as profitable as ever. In a quite different field, once-moribund Fleetwood Enterprises more than doubled its 12-month return on equity to an impressive 31.9%. This came on the strength of sharply improving sales of recreational vehicles and superbly designed, low-cost manufactured housing.

Meanwhile, there was continuing strength in Atlantic City casinos despite the recession, a surprising resurgence in Nevada gaming (casino winnings were up almost 10% in Las Vegas, to $1.9 billion) and strong convention business in Las Vegas. There is also the prospect of a turnaround in the lodging business after more than three years in the doldrums, as salesmen hit the road in a recovering economy.

The hotel business did feel the recession, but hoteliers saw occupancy rates recover almost 2% last year over 1982, spurred by a travel boomlet that began in the third quarter. Of course, that is from a sorely depressed base. The hotel business was hurting badly for most of 1982 and early 1983, when only 64% of the available 2.2 million to 2.5 million rooms were occupied. That hovered at the industry breakeven range of 60% to 64%. (Marriott and Holiday Inns were able to take this in stride because of widespread pruning of older units at Holiday and continuing heavy expansion and cost efficiencies at Marriott.)

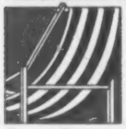
Current travel industry forecasts call for 69% occupancy rates this year, which is close to peak 1979 conditions. Splashy events like the summer Olympics in Los Angeles and the presidential elections this year will help keep rooms filled.

William H. Edwards, president of the hotel division of Hilton Hotels Corp., notes October 1983 was the best earnings month in the history of the company. He adds: Hilton has seen a surge in advanced bookings for conventions in 1984, and a "good pace" in 1985 and 1986 bookings.

But many negatives remain: Revenues from foreign visitors, down about 12% in 1982, are expected to stay down for 1983 because of the strong dollar. Nor can the hotel industry expect quite as much help from airline travel packages with the airline industry in the shape it's in.

Add to that a 2% increase in available rooms, and it amounts to saturation, particularly in high-priced lodging. Marriott Chairman Bill Marriott Jr. blames foreign competition, such as Trust House Forte, Air France's Meridien Hotels and Aer Lingus' Dunfey Hotels, all of which are opening high-end hotels (room rates of $100 to $200 a day) in the U.S. "These hotels have high construction and operating costs and no appeal to the ordinary pleasure and convention market," he says. "It takes some cream off regular hotels." Like Marriott's moderately upscale hotels, that is.

Of course, Marriott's main, slightly downscale, domestic competitors are



doing the same thing. In the name of luxury segmentation (using a different brand name and image) ailing Ramada Inns has constructed ten pricier Renaissance Hotels, and Holiday has built four Crowne Plaza hotels.

Marriott, for his part, hasn't been idle either. He's continuing to expand the chain's traditional hotel space by about 20% this year and next, but he is also experimenting with lower-priced, nonconvention lodging with several Courtyard hotels that offer rooms for $45 to $55 a night, vs. $70 to $100 for Marriott rooms. This year, Holiday Inns will also launch a budget strategy, with a no-frills, scaled-down chain offering rooms at $35 and less.

Casino properties continue to be a gold mine. But because of extraordinary factors, you wouldn't know it from looking at the latest 12 months of Caesars World (which took a $10 million loss in one quarter on a cash-flow savings bond swap) and MGM Grand (which is still paying part of the $75 million settlement from the 1980 fire at its flagship hotel and trying to clean up its balance sheet), or Resorts International (whose latest 12-month profitability was badly damaged by losses on metals futures trading—a side venture Resorts now wants no more of).

These setbacks were alleviated by the fact that gaming income was up 18% over 1982 in Atlantic City, to $1.8 billion. But the surprise was the strong performance in Nevada. "It looks like America can sustain two major gaming capitals," says Laventhol & Horwath partner and leisure expert Saul F. Leonard.

Casino operators may be smiling, but look at the erstwhile favorites with long faces: Walt Disney Productions (whose theme-park earnings are burdened with huge film and television losses), Eastman Kodak (hit with a dropoff in overseas sales) and Polaroid (suffering from the same depressed photographic market plus lower film sales). But those faded favorites have fairly bright recovery prospects this year. Only in the once-hot videogames segment did things continue to look dismal as the new year dawned. A fad is a fad is a fad. ■

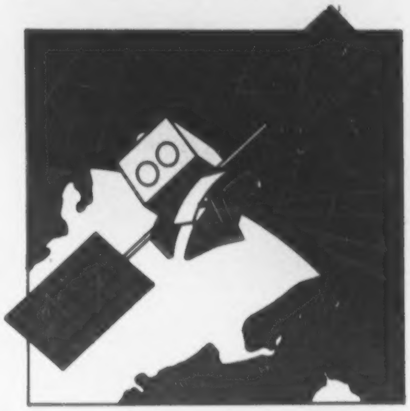
Leisure

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Hotels and gambling												
Hilton Hotels	1	23.4%	18.6%	0.3	2	17.5%	13.2%	17.0%	6	8.7%	4	21.7%
Resorts Intl	2	22.7	10.1	0.6	1	18.0	8.3	5.9	1	32.8	3	24.9
Marriott	3	21.0	20.3	1.3	3	10.8	9.3	3.8	3	18.6	2	26.6
MGM Grand Hotels	4	20.7	NE	1.1	5	9.9†	5.7	5.5	5	11.2	6	5.9
Caesars World	5	15.9	def	1.4	6	8.6	3.1	def	2	29.8	1	50.3
Holiday Inns	6	12.5	12.6	0.5	4	10.2	10.0	7.9	7	7.6	5	12.5
Del E Webb	7	3.7	0.7	0.8	7	5.3	3.9	0.2	8	2.0	7	–13.5
Ramada Inns	8	def	def	3.3	8	3.3	4.3	def	4	12.3	8	P–D
Medians		18.3	5.4	1.0		10.1	7.0	4.7		11.8		17.1
Entertainment												
General Cinema	1	29.2%	54.3%	1.6	1	15.8%	22.0%	10.1%	3	14.2%	1	24.6%
Warner Communications	2	18.1	def	0.3	3	14.0	def	def	2	25.3	2	9.4
MCA	3	16.3	15.7	0.0	2	15.0	14.7	9.9	5	10.8	4	7.6
MGM/UA Entertainment	4	14.1†	13.1	1.8	4	10.5†	7.2	5.5	1	28.9	5	4.0
Walt Disney	5	10.8	7.2	0.2	5	9.7	5.8	7.1	4	11.7	3	8.6
Medians		16.3	13.1	0.3		14.0	7.2	7.1		14.2		8.6
Recreation												
Coleco Industries	1	59.7%	44.2%	0.8	1	35.2%	27.0%	6.9%	2	25.3%		D–P
Tandy	2	45.2	29.3	0.1	2	28.8	25.9	11.2	4	19.2	1	34.3%
Brunswick	3	20.4	10.3	0.4	7	11.8	10.7	4.1	11	4.5	3	19.9
Bally Manufacturing	4	20.4	5.4	0.6	4	16.1	6.2	2.4	1	32.2	2	26.2
Eastman Kodak	5	18.3	11.7	0.0	3	17.2	10.6	7.8	7	12.4	5	9.4
American Greetings	6	15.8	15.7	0.3	6	12.0	12.4	6.3	5	15.9	4	15.2
Milton Bradley	7	13.8	2.0	0.1	5	12.2	2.6	1.1	6	13.7	6	9.3
Fleetwood Enterprises	8	11.4	31.9	0.0	8	11.2	31.0	4.2	8	8.1	7	6.1
Outboard Marine	9	7.9	11.8	0.3	10	6.9	9.8	5.0	10	5.6	8	0.2
Skyline	10	7.2	6.9	0.0	9	7.1	6.8	2.5	12	2.4	9	–2.6
AMF	11	6.5	def	0.4	11	5.4	def	def	13	1.9	10	–6.8
Polaroid	12	4.5	3.7	0.1	12	4.8	4.1	2.7	9	6.5	11	–11.0
Mattel	13	def	def	0.4	13	3.2	def	def	3	21.9	12	P–D
Medians		13.8	10.3	0.3		11.8	9.8	4.1		12.4		7.7
Industry medians		15.9	10.2	0.4		11.0	7.8	4.6		12.4		9.3
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
†Four-year average. P–D: profit to deficit. D–P: deficit to profit; not ranked. def: deficit. NE: negative equity.

Now that AT&T is broken up, the question is access charges. For the consumer, nevertheless, costs will go up and service down.



Telecommunications

By Pamela Sherrid

IT FINALLY HAPPENS: On New Year's Day AT&T divests itself of the local Bell operating companies. The breakup of AT&T, that once-in-a-lifetime event, is a reality.

So far the sky shows no sign of falling, but the excitement level could really pick up if the struggle over long-distance rates goes awry.

The most dramatic change on the Forbes Yardsticks *(p. 238)* took place at Rolm, a manufacturer of office switching systems like private branch exchanges (PBXs) and general-purpose military computers. But AT&T's D (for divestiture) Day had nothing to do with Rolm's precipitous drop in profits in 1983. Rolm's aging product line encountered fierce competitive pricing pressures in the PBX market from companies like Northern Telecom. The situation was exacerbated in the recent quarter by the AT&T strike, which slowed down Rolm installations, and by a new product's initial shipment delay caused by bugs in the software.

Nevertheless, Rolm's prospects have never looked better, thanks to two related events. In June, to the industry's surprise, IBM paid $228 million for a 15% stake in the lagging PBX maker. IBM's motivation became clear later in the year when Rolm announced a new-generation PBX capable of switching extremely large amounts of information between telephones and computers. The new product, the result of heavy research and development spending by Rolm, is expected to play a key role in IBM's office automation strategy.

Though all the independent telephone companies on the main list—Centel, United Telecommunications, Continental Telecom, GTE and Southern New England Telephone—have diversified into unregulated businesses, as the seven Bell operating companies hope to do, for now the greater part of their revenues still comes from telephone operations.

In those utility operations, the recession slowed down the pace of local line installments and of long-distance toll unit growth as well. Because the telephone industry tends to lag the economy as a whole by six to nine months, these companies for the most part didn't begin to benefit from the recovery until the second half of 1983. "In the third quarter, our toll unit volume was up 9.5%, the strongest move since 1981," reports Robert Reuss, chairman of Centel. In 1984 the industry should experience the full bloom of the recovery, with unit toll volume rising 10% to 15%.

For now, the independent telephone companies receive their portion of the long-distance pie through a negotiated settlements process with AT&T that generally gives them over 50% of their total revenues. The industry earned less than its federally authorized 12.75% rate of return on its long-distance business in 1983, in part because traffic volume turned out to be less than was anticipated.

But D Day also played a role in that subpar return. Normally the industry would have gone back to the FCC to ask for higher rates. But, as Paul Henson, chairman of United Telecommunications, explains: "We knew that

Bell before the bell

Institutional investors are hesitant to buy stock in the new Bell entities until it is actually issued later this year. Most of the brisk when-issued trading comes from individuals seeking to lock in the high yields shown below and, presumably, a capital gain as well once the institutions start buying.

					Historical			
					% increase 1981-83*			
Company	Recent price	1984 estimated EPS	P/E	Estimated yield on common	revenues	earnings	Return on equity	Profit margin
AT&T (postdivestiture)	20½	$ 2.02	10.1	5.9%	NA	NA	NA	NA
Ameritech	62¾	9.47	6.6	9.6	10.3%	22.2%	12.7%	11.7%
Bell Atlantic	66⅛	9.69	6.8	9.6	16.4	25.6	12.7	12.1
BellSouth	88½	12.21	7.2	8.8	14.2	19.7	13.5	13.3
NYNEX	60⅝	9.54	6.4	9.9	15.8	14.4	12.8	10.3
Pacific Telesis	54⅜	8.00	6.8	9.9	15.8	122.7	14.5	12.4
Southwestern Bell	59⅝	8.93	6.7	9.4	15.9	13.7	12.0	11.3
US WEST	57⅛	8.96	6.4	9.5	11.9	11.4	12.4	12.0

*December 1981 to June 1983. NA: not available.

Sources: Divestiture prospectus; FORBES

right after divestiture, AT&T's long-distance rates were supposed to come down as more of the burden for local service was shifted to the local user. It didn't make sense to raise long-distance rates and then lower them soon after. So we've been accepting a lower than allowable rate of return."

Nearly ten years ago some of the larger independent telephone companies started to diversify in anticipation of the day when their long-distance revenues might shrink. But with little success to date.

One notable exception is Continental, where, in the first nine months, earnings from nonutility operations tripled. That was thanks to Continental's business systems group, which includes Executone, a national distributor of communications equipment for small businesses.

The new, lean and mean AT&T also now finds itself in both regulated markets (long-distance telephone service, which will account for over 50% of 1984 revenues) and deregulated ones (for example, telephone equipment and software systems sales). In both worlds it is facing major uncertainties. On the hardware side, its manufacturing arm, Western Electric, finally has a digital central-office switch to offer to the new Bell operating companies and the other independents. But Western has lost ground in the central-switch market to Northern Telecom, which was the first to produce a local digital switch. Northern already has a sizable share of the independent market and is likely to sign many contracts with the new Bell companies.

The end-user or "customer premises" market is even more wide open. Here AT&T does not yet have a full product line. Its flagship product is the System 85 PBX, which got off to a less than glorious start when first introduced last January. Sales stepped up when enhanced versions were introduced later in 1983.

Significantly, AT&T also announced cooperative arrangements with Wang and Hewlett-Packard designed to integrate the System 85 with their computer products. This is the first time that AT&T has opened its specifications to other vendors, and it's a clear signal that Ma Bell intends to lock horns with IBM in its decision to back Rolm. Though the two giants are moving from different strengths, both realize that compatibility between PBXs and computers is necessary to make the office of the future happen.

There's a wild card in the "customer-premises equipment" market. It's the new regional Bell companies to which Judge Greene returned the right to sell, but not manufacture, telephone equipment. The Bell babies are not all that wild about marketing the same equipment as AT&T. The result is a bonanza for other manufacturers, including offshore ones, which have already lined up Bell baby contracts. "No doubt it's an opportunity for lots of competitors to exploit a new channel of distribution," admits William Buehler, a vice president at AT&T Information Systems.

The greatest short-term uncertainty in this industry is the long-distance business, which was turned into a political football late in the predivestiture process. Now there is a strong possibility that Congress will soon overrule the FCC's ideas about who should pay for long-distance calls.

Gallons of ink have already been spilled explaining this "access charge" controversy. Actually, it isn't all that complicated. The FCC's decision, announced last August, was very favorable for AT&T. The amount that AT&T would have to pay local telephone companies for originating and completing long-distance calls would drop by about 25%. Part of that cost would be taken up by consumers through flat monthly access fees. The remainder—at least for a few years—would be borne by competing long-distance carriers, such as MCI and GTE's Sprint, whose payments to local phone companies would nearly double.

The FCC wants to end the subsidy of local service by long-distance service, so the industry will base pricing on actual costs. That way the big long-distance users would stop deserting existing common carriers in increasing numbers in favor of cheaper, private networks. The Bell regional companies and the independents quite agree. "Local service has got to stand on its own bottom," says United Telecommunications' Henson. "If we don't go to access charges, the little old ladies will be left to pay the bills all by themselves, and the cost

Telecommunications

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
ROLM	1	41.4%	10.9%	0.1	1	38.3%	10.5%	5.9%	1	65.9%	1	57.9%
MCI Communications	2	30.6	28.1	1.1	2	18.2	13.6	14.6	2	65.2		D–P
Centel	3	17.9	16.8	0.8	4	7.9	7.7	9.0	4	17.4	2	8.1
United Telecom	4	16.9	14.7	0.9	3	8.1	7.4	8.7	5	14.2	5	6.0
Continental Telecom	5	14.6	14.3	1.0	5	7.5	7.2	8.1	3	17.5	4	6.6
GTE	6	14.3	15.6	0.9	6	7.5	7.8	7.4	8	9.8	6	5.1
So New England Tel	7	12.8	14.4	0.5	8	7.3	7.9	10.1	6	12.3	3	7.6
American Tel & Tel*	8	12.3	10.2	0.5	7	7.4	6.5	9.7	7	11.7	6	5.1
Western Union	9	6.1	9.1	0.7	9	6.0	7.2	8.3	9	8.0	8	3.7
Industry medians		14.6	14.4	0.8		7.5	7.7	8.7		14.2		6.3
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
*Data are on predivestiture basis.
D–P: deficit to profit; not ranked.

will be much higher than anyone is talking about now."

MCI and the other non-AT&T long-distance carriers obviously agree that the cost of access to long-distance carriers should be shifted from them to the local consumer. But naturally they are fighting like mad to avoid having to pay more during the intervening years—from 1984 to 1987—as they would have to under the FCC plan. "That's anticompetitive and blatantly unfair," says MCI President Orville Wright.

At the moment MCI has a 45% discount from AT&T because it gets an inferior-quality interconnection with the local operating companies. In the next few years the local companies will be upgrading their connections with non-AT&T carriers, so MCI will gradually be paying what AT&T does. That is fine with MCI—especially if AT&T's costs go down as the local consumer takes on more of the costs through rising access fees.

If the access fees go through as the FCC has structured them, though, MCI will have a tough few years. In 1984, increased payments to local operating companies would cut its operating margins in half. And the company would get hit by a double whammy: AT&T has already announced its intention of using its cost savings to reduce its long-distance rates by an average of 10.5%. That would force MCI to make a price cut about half as big to prevent the differential between it and AT&T from eroding too much. Wright says that price cut would take another two percentage points off MCI's margins, leaving it with so little profit that it would put a severe crimp in the company's capital spending plans. "That's just the way AT&T planned it," he says grimly.

Meanwhile, the battle in Congress appears to focus on consumer outrage over new access charges. However this battle is resolved, higher local rates seem inevitable. Even if Congress votes against access fees for now, the local operating companies are going to need lots of rate increases just to modernize their obsolete plants. True believers in the benefits of deregulation expect increases in local prices to be more than offset by long-distance savings, though, of course, that is yet to be seen.

In the meantime, prepare for deteriorating service. It's quite alarming, in fact, just how many top executives in the industry are predicting it. "So you're having trouble getting a dial tone?" asks one. "Get used to it; it's going to get worse." ■

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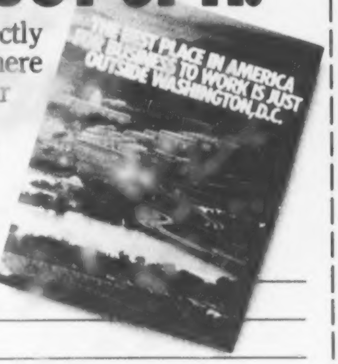

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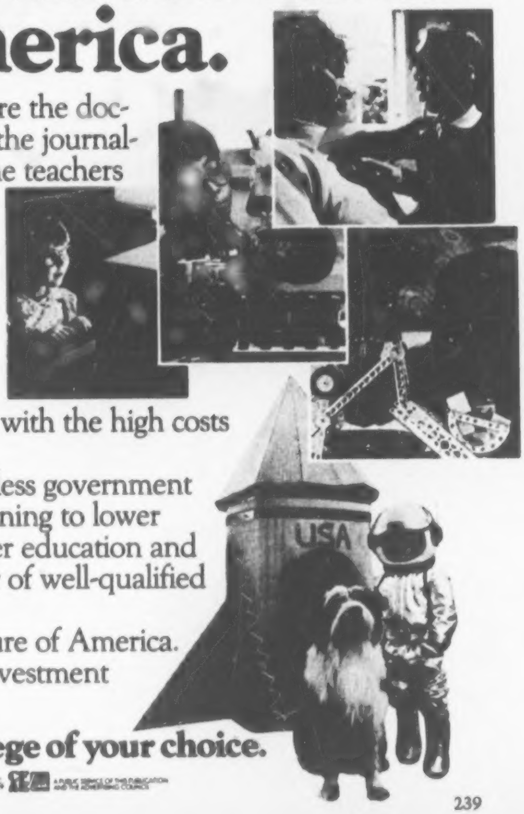

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Don't count out the networks. With the Olympics and the presidential elections coming up, this may be their year.

Broadcasting

By Thomas Jaffe

HAVE THE NETWORKS hit bottom? In just four years, 1978 to 1982, the three television networks' share of the prime-time audience fell from 93% to 79%. But in 1983 the decline bottomed out. And in 1984? Well, there are the Olympics and the national elections coming up. Between them, they ought to insure the networks a satisfying renaissance.

Look at the tables below, and you can see that the networks could use a boost. The profits of CBS Inc., ABC and RCA Corp. (the parent of NBC) were up in 1983, but returns still lagged their five-year averages. Their broadcasting revenues increased a respectable 12%, but operating margins kept shrinking—from 20% in 1978 to about 13% in 1983. At that rate, network TV could become just another business instead of a license to print money.

The Olympics cannot singlehandedly turn this tide, but they will go a long way. The Games will account for more than $625 million in advertising sales, according to ABC, which will broadcast them. ABC figures one-third to 40% of this is money that would have been spent with the networks anyway. The other $400 million, it claims, is new money. Others think it's less than half that, but, even so, ABC stands to clean up. And, curiously, so do its two rivals. The Olympics doesn't create more minutes of commercial time; it simply replaces existing inventory. CBS and NBC are counting on the demand (and thus the price) to increase for what remains. The impact on profits of the 1984 conventions and elections is harder to quantify because network news departments also spend a lot of money covering them. But politicians competing for time with regular advertisers are likely to drive up rates.

Add to this new blockbuster miniseries like ABC's *The Last Days of Pompeii* and CBS' *George Washington*, and the betting on Madison Avenue is that the networks will tally 12% to 13% increases in commercial rates in 1984. And network revenues will probably be up an estimated 16% to 18%, to somewhere around $7.6 billion. "They have their ducks lined up in a row," says Stephen Leff, director of media services at New York ad agency Backer & Spielvogel. "The networks have a perfect opportunity to reattract a lot of viewers who have been waylaid by other options."

Moreover, most of the rest of the industry will be pulling for them. Why? Because when the networks do

Broadcasting

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Metromedia	1	80.6%	55.1%	1.6	1	31.5%	18.2%	16.7%	8	10.6%	1	48.5%
Capital Cities Commun	2	22.1	19.5	0.1	2	18.6	18.2	14.8	3	19.0	2	21.1
Cox Communications	3	19.7	16.4	0.4	3	15.1	11.3	12.0	2	22.5	3	19.8
Amer Broadcasting	4	18.1	13.7	0.2	4	15.0	11.8	5.4	6	12.4	4	13.4
Rollins	5	17.1	1.8	0.0	5	14.7	1.9	1.0	5	12.8	6	7.5
Wometco Enterprises	6	15.7	14.3	0.8	7	10.6	8.9	5.6	4	16.0	5	10.9
CBS	7	14.7	11.1	0.2	6	12.5	9.3	3.4	7	10.9	7	1.0
RCA	8	10.1	8.4	0.8	8	9.0	7.8	2.5	9	8.2	8	–2.2
Oak Industries	9	3.6	def	0.9	9	8.5	def	def	1	24.4	9	P–D
Industry medians		17.1	13.7	0.4		14.7	9.3	5.4		12.8		10.9
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.

well, so does practically everyone else. Take big group broadcasters like Capital Cities Communications and Cox Communications, for example. Their stations thrive in the nearly $8 billion national spot and local advertising markets. National spot is the ration of commercial time within network-supplied programs that is sold to national advertisers by individual stations themselves. Revenues here could be up over 15% in 1984.

Does that mean that Metromedia is worth a billion and a half dollars? John Kluge thinks it is, and Kluge is not only the company's chairman and largest stockholder but also a principal in the corporation set up to buy it out for that hefty sum. But the fact is, the Metromedia buyout, at about 3 times 1983 revenues, is not the best measure of the potential of 1984. True, Metromedia is the leader in the tables *(see p. 240)*. True, the company's seven TV stations, which reach 24% of the national audience, are enormously profitable.

But that spectacular return on equity doesn't tell the full story. Metromedia is burdened by some $680 million of long-term debt. (Its debt-to-equity ratio is 4 times the industry's median.) That's the reason, of course, that its return on equity is 2½ times that of number two Capital Cities Communications but its return on total capital, the crucial measure, is the same.

Capital Cities, in fact, is a much better measure of the profitability 1984 could bring. Four of its six TV stations are ABC affiliates, so they should benefit smartly from the Olympics. Its inventory of time in periods adjacent to Games coverage should command premium prices from national spot and local advertisers. The same goes for Cox, another pacesetter in profits, and smaller Taft Broadcasting, both of which also have a clutch of ABC stations.

Independent TV stations used to be the stepchildren of broadcasting. Now some are among its most prosperous segments. In 1979 there were 122 "indies"; by the end of 1984 there should be nearly twice as many. In 1975 the independents' share of national spot and local advertising was 16%. In 1983 it was 24%, or nearly $2 billion. By 1990 it should be up to 28%. No wonder everyone wants a piece of that action.

And with such glittering prospects, it's no wonder, too, that the independents are terrified by the possibility that the FCC will allow the networks once again to own their own programming and sell the syndication rights themselves. After all, the indies' main stock in trade these days is the syndicated reruns of popular old network series. With ex-actor Ronald Reagan opposing the FCC proposal, it hardly seems likely it will go through anytime soon. But just the thought disturbs the independents, who fear the networks would "warehouse" programs after their prime-time runs and then offer them to affiliates before independents. "Hogwash," says Gene Jankowski, president of the $2.5 billion (sales) CBS Broadcast Group. "When you manufacture something, you don't do that to store it away. You want to move it, generate revenues."

The revenues Jankowski is talking about are enormous—some $800 million a year. And most of it is gravy.

Upcoming miniseries: from Rome to the Revolution

Will they help rebuild the networks' audience?

Rights to the current CBS hit detective series *Magnum, P.I.* alone recently fetched a reported $70 million from 11 independents. But of course all that money will go to the show's producer, MCA's Universal Television, not to CBS, where of course it could help restore those eroded margins.

There are other deregulation straws in the wind. Will the "rule of seven," which prohibits any company from owning more than seven TV stations, be relaxed or abolished? Many insiders consider either a real possibility. Again, the biggest beneficiary could be the networks. Their existing owned-and-operated stations are money machines, accounting for perhaps 40% of the networks' combined broadcasting profits and 24% of their national audience. At present they have only five apiece. More would benefit in two ways: First, in immediate operating profits; second, in delivering a more attractive audience to advertisers (since a network can tell an owned station what programming to carry, but can only suggest to an affiliate).

But network or non-network, broadcasting is clearly a more profitable business than about anything else you can find. Conglomerates that mix broadcasting and nonbroadcasting have again been demonstrating that. Take, for example, Rollins, whose profitability shrank to next to nothing in 1983 because oilfield services, 47% of income in 1982, collapsed. Rollins' broadcast chain and, to a lesser extent, its exterminating business, kept the company going.

In contrast to the bright prospects for broadcasting, cable and its pay-TV cousins hardly look like the fair-haired children anymore. Look at poor Oak Industries at the bottom of the list, badly hurt by the faltering subscription-TV business. Oak ended operations in two cities, taking a $23 million writeoff, and set up a $49 million reserve to cover further losses.

Pure cable ventures, meanwhile, were dropping like flies. CBS' cultural service, RCA's entertainment channel and the ABC/Westinghouse Satellite News Channel rolled up combined losses of $125 million in 1983. The first two died, and SNC was bought out by Turner Broadcasting's Cable News Network, which, despite all the hoopla, is still losing money. ABC's ARTS cultural service and Daytime, its joint venture with Hearst Corp., were still alive at year's end but had lost an estimated $60 million or more. Basic cable must eventually attract advertisers in large numbers, and, although its ad revenues were $250 million in 1983 and should increase 25% or so in 1984, that's still a mere crumb from the total $16.5 billion broadcast advertising pie. "Clients ask me, 'What are we going to lose if we don't buy time on cable?' " says Backer & Spielvogel's Leff. " 'Nothing,' I tell them."

In short, the networks will be the engine of recovery in broadcasting this year—although "recovery" may be a misnomer in this business, where pretax margins for most stations didn't fall below 35% even in the depths of the recession. Except for the cable business, almost everybody will make a lot of money—if the networks do. "The plain fact is," says Capital Cities Chairman Thomas Murphy, "if the networks don't do well, we won't do as well as we want to, either." ■

A lot of newspapers folded last year, but don't be deceived. This industry is booming.

Publishing

By Pamela Sherrid

NEARLY A DOZEN MORE daily newspapers folded or merged in 1983. But Arthur Ochs (Punch) Sulzberger, The New York Times Co. chairman, says cheerfully, "It's a pretty good time for papers."

Sulzberger is right, despite the evidence of strain in the Yardsticks. The Times Co. and The Washington Post Co. both bettered their five-year averages in return on equity and The Post raised return on total capital in 1983. True, most other newspaper companies did not, but, considering the severity of the recession, they did remarkably well, putting the whole industry in a powerful position as the economy moves into a classical cyclical recovery. Advertising lineage, in the doldrums in 1982, started climbing again in 1983. Classified ads for employment, housing and real estate, always the most sensitive to swings in the economy, led the way sharply with a 23% increase in the first nine months—above expectations.

Even in the depths of the advertising decline, newspaper publishers got a respite from the seemingly inexorable rise in the price of newsprint. The paper mills were forced to make those cuts—the first since the Great Depression—because of the publishers' reduced need for paper. With the 1983 advertising recovery, paper prices started rising once again, but not by more than they declined in 1982. The result was wider margins, margins further fattened by continuing automation in an industry once plagued by intractable labor costs.

What about all those newspapers that folded in 1983? Good news for the survivors—and frequently for the proprietors of the defunct papers as well. Because of the demise of the *Philadelphia Bulletin*, Knight-Ridder's *Philadelphia Inquirer* and *Daily News* now share a monopoly in the city, while The Washington Post Co. is cleaning up in its hometown with the 1981 demise of the *Washington Star*. The independent *Buffalo News* is the only daily in that city since the 1982 closing of Cowles' *Courier Express*. In St. Louis, where Newhouse's *Globe-Democrat* was at death's door at year-end, the Justice Department was trying to arrange a rescue. But if it fails, Newhouse will wind up with an interest in the survivor *Post-Dispatch* in return for shutting the *Globe-Democrat*.

Gannett Chairman Allen Neuharth
Sticking to his original projections for USA Today.

All this sets the stage for a powerful upward momentum in earnings in 1984. Wall Street especially likes big-city newspapers like The New York Times Co., The Washington Post Co. and Times Mirror Co., which will most likely see earnings rise over 20% for the year. By contrast, earnings at Harte-Hanks (1982 revenues $394 million), which owns smaller newspapers, mostly in the South, will be up, but not nearly as much.

There's a big-city newcomer on the list this year. In October Chicago's Tribune Co. (the *Tribune* and the New York *Daily News)* went public after 136 years of private control. With 1982 revenues of $1.4 billion, the Tribune Co. ranks number three in revenues behind Times Mirror ($2.2 billion) and Gannett ($1.5 billion). (Two publishing empires just about as big as the Tribune Co.—Newhouse and Hearst—remain in private hands.)

The Tribune Co. has long been an earnings laggard. Its five-year return on equity falls significantly below the industry. But the current outlook is brighter. Not only will its big-city papers benefit from cyclical trends, but the Tribune recently completed a

$185 million expansion and modernization project in Chicago that gives it state-of-the-art offset printing. In New York the *Daily News* has been restored to profitability through labor negotiations and a plant relocation that together could reduce operating expenses by $50 million annually.

Right now newspaper publishing is, basically, an old-technology business, but that's changing fast. Says Allen Neuharth, Gannett chairman: "Most of us in the news and information business are working on how to use the new [computer and telecommunications] technologies to distribute and sell more news and information—in print or electronically."

Gannett is in the forefront with the use of satellite-transmission technology to launch *USA Today* as a national newspaper. In this it follows in the pioneering footsteps of Dow Jones' *Wall Street Journal*. This technology enables Gannett to print in many places, vary the ad content according to region and, by year-end, reach all major population centers within a few hours of printing. *USA Today* probably lost about $85 million pretax in 1983, but Gannett can afford it. Despite the losses, its earnings probably rose 6% last year. Meanwhile, Neuharth is staying with his original projection that *USA Today* will be in the black by 1987. Both Wall Street and Gannett's competitors remain skeptical.

Also looming on the newspaper horizon is videotex, the two-way transaction and information service that reaches the home via the TV screen. Time Inc. abandoned its one-way teletext experiment late in 1983, but the industry's eyes are focused on South Florida, where Knight-Ridder started selling its videotex Viewtron system this fall. Viewtron offers a special computer terminal for $600 to hook up to subscribers' TV sets. The customer pays a $12 monthly fee and $1 an hour for phone usage. If the system is a success in south Florida, Knight-Ridder hopes to leverage its $26 million investment by introducing Viewtron into five other markets where it owns papers and into other cities by forging alliances with other publishers. Times Mirror will launch a system similar to Viewtron in Orange County in 1984, and if this is successful, plans to offer a videotex service with The Washington Post Co. in the Washington area. "Newspapers are the natural heirs to this business," says a Knight-Ridder executive.

Dow Jones, which tops the list of newspaper publishers in ROE, made a profit on its database publishing effort for the first time in 1983. "Database publishing is going to be a very substantial part of our business in the future," says Chairman Warren Phillips. By contrast The New York Times Co. got out of the marketing and computer operations of its own electronic information service in 1983, deciding instead to license the electronic reproduction of its database to Mead Corp. "It really wasn't our line of business," says Sulzberger.

Ask Dow Jones' Phillips, though, where he sees his major growth coming from in the future, and his answer is still the *Wall Street Journal*, which provides about 70% of corporate profits today. "There are no signs that we are reaching saturation in that market," Phillips says. "The number of people who are prospective readers—people with high income, high education—is growing faster than the general population." There are reports that the *Journal*, which went into two sections in 1980, plans to add even more pages in the fairly near future.

As the U.S. moves from the industrial age to the knowledge-communications age, the newspaper business is clearly a good place to be. ■

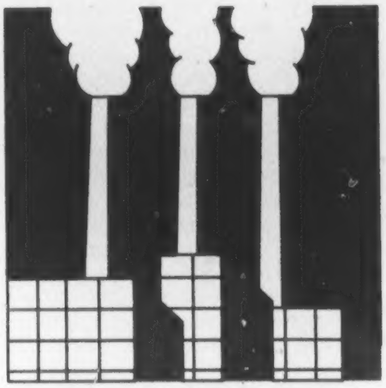
Publishing

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Dow Jones	1	32.1%	31.3%	0.1	2	28.8%	27.8%	12.7%	5	18.0%	6	17.9%
Dun & Bradstreet	2	31.3	32.0	0.0	1	31.1	32.1	10.4	7	16.2	4	18.3
Deluxe Check Printers	3	29.0	28.9	0.0	3	26.5	26.1	12.2	10	15.1	3	18.3
McGraw-Hill	4	22.3	22.5	0.0	4	20.2	20.8	9.7	15	12.3	7	17.4
Washington Post	5	22.3	23.9	0.0	7	18.1	20.9	7.3	12	13.6	10	14.5
Capital Cities Commun	6	22.1	19.5	0.1	6	18.6	18.2	14.8	3	19.0	1	21.1
Gannett	7	21.4	20.0	0.3	9	17.2	15.5	11.3	1	23.8	9	15.3
A C Nielsen	8	20.9	22.1	0.1	5	20.1	21.1	7.3	4	18.5	8	15.6
Equifax	9	20.1	22.2	0.1	10	16.8	18.6	3.5	18	9.5	16	6.6
New York Times	10	19.1	19.8	0.4	11	15.6	13.1	6.5	13	13.4	2	18.5
Interpublic Group	11	18.8	16.5	0.1	8	17.7	16.4	4.0	6	16.7	14	9.9
Times Mirror	12	18.6	17.3	0.5	13	14.6	12.0	7.2	9	15.2	13	12.6
Meredith	13	18.6	20.1	0.5	15	12.5	12.9	8.4	11	13.8	5	18.1
Knight-Ridder News	14	16.3	14.8	0.1	12	14.6	13.2	8.1	16	11.9	12	14.0
R R Donnelley & Sons	15	16.1	17.5	0.0	14	13.9	14.2	7.4	8	15.8	11	14.2
Harcourt Brace Jovan	16	13.6	15.2	0.6	17	9.6	9.8	4.0	14	12.5	17	6.4
Time Inc	17	12.5	10.6	0.3	16	10.1	8.5	4.0	2	23.0	15	6.7
Tribune	18	11.7	10.3	0.6		**	6.7	4.0	17	9.9‡‡	18	−4.5‡‡
Macmillan	19	4.4	15.2	0.3	18	4.5	13.0	5.4	19	−1.5	19	−18.0
Industry medians		19.1	19.8	0.1		17.0	15.5	7.3		15.1		14.5
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡‡Three-year growth. **Not available; not ranked.

Every diversified company wants to be "focused" today, with its assets redeployed in all the right areas. Very few are.



Diversified companies

By Jay Gissen

"JETTISONING THE JUNK" is what some might call this new chapter in the conglomerate saga.

Of course, that's not what the chief executives call it at Penn Central, Ogden, Alco Standard, Gulf & Western, U.S. Industries or IU International. At those companies they say they're redeploying their assets, divesting, deconglomerating or consolidating. At City Investing, Northwest Industries, FMC and Litton they're thinking about becoming what Northwest Chairman Ben Heineman, 69, calls a "focused conglomerate."

If that means concentrating on those acquisitions you seem to understand best, then Penn Central qualifies as a focused conglomerate. It had been busy company-shopping, shrewdly for the most part, since it came out of bankruptcy in 1978. PC finally divested itself of its Arvida real estate development subsidiary whose cyclical performance and dreary growth prospects don't fit in with PC's new emphasis. Penn Central will now derive well over half its revenues and profits from oil- and gas-related products and services and the rest from electronics and telecommunications (through its GK Technologies subsidiary, acquired in 1981). The oil and gas glut is depressing earnings now, but with $2.3 billion in tax-loss carryforwards and more divestitures expected this year, PC CEO Al Martinelli will not lack the wherewithal to consolidate the company's position in the two areas where he has decided to concentrate.

Also "focusing" are U.S. Industries and Gulf & Western. U.S. Industries is

Litton Industries CEO Fred O'Green

He has $1.24 billion cash to help make Litton less diversified.

essentially getting out of its consumer-oriented businesses right in the midst of a consumer-led recovery because, belatedly, Chairman Gordon Walker decided the product lines had inadequate market share. Walker now plans to concentrate instead on industrial equipment and building materials, two rather obvious choices one year into a recovery.

USI's Walker and Penn Central's Martinelli scarcely see eye-to-eye with Gulf & Western's Martin Davis. G&W is getting out of building materials, energy products and natural resources to concentrate on consumer and industrial products, entertainment and finance. G&W's Davis is steadily selling the company's assets, which should generate some $275 million in cash.

Alco Standard has decided to concentrate on distribution. With the sale of some 45% of its manufacturing assets (23 manufacturing companies were sold in 1983), over 80% of sales and over two-thirds of profits will come from the distribution area. Explains CEO Ray Mundt: "We have recognized that we can do best those things that we know about." Mundt's strategy now is to fill in the geographic areas where Alco Standard is not yet distributing, using, of course, cash generated from the recent divestitures. Litton Industries is getting out of business systems and will spend some of its $1.24 billion in cash on technology-related acquisitions. "We were too diversified," says Litton's CEO Fred O'Green. "Now we are sharpening the focus."

The impetus for the focused conglomerate trend is obvious. Something had to be done. One glance at the latest-12-months columns in the Forbes Profitability rankings shows that diversified companies and conglomerates suffered more than the average company, because of their concentration in the older and still depressed industries like machine tools, construction, materials handling machinery, aviation and energy. Look at Amfac. It's in six different businesses, most of which are lagging competitors. Its five-year average return on capital is a dismal 6.3%. Bangor Punta is in similar straits, with a five-year average return on capital of 5.1%. Even longtime Wall Street favorite Henry Singleton of Teledyne was having trouble in construction machinery, in specialty metals, in offshore rigs and in property and casualty insurance.

"A lot of managers began to understand ten years ago that there was a second financial statement called the

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balance sheet and not just one called a profit and loss statement," says AMF CEO W. Thomas York. AMF, which grew rich in the bowling boom of the mid-Fifties through the early Sixties, became a leisure time conglomerate and tried electronics controls and oil services. Through 1981 its return on assets and return on equity had steadily improved and debt had come down. For most of 1983, however, the company ran into the red because of the downturn in oil services.

Debt reduction has been the order of the day among conglomerates. For the period 1968-73, for example, conglomerate net debt was greater than general industry net debt—45% of capital vs. 24%. Since 1973 the excess has decreased, disappearing entirely in 1981. Today it is slightly less than general industry net debt. At Litton Industries, for example, long-term debt is now down to $233 million after being as high as $643 million several years ago. Among the other big long-term debt reducers: Signal, Allied, TRW, National Distillers and FMC. Plus, at year-end 1982, conglomerate short-term debt was 3.6% of invested capital vs. 8.8% for general industry.

But there is a cost to these better-looking balance sheets: older plant and equipment.

Most of the improvement in conglomerate balance sheets stems from restricting capital spending relative to sales growth. The conglomerates' invested capital has been growing much more slowly than general industry's since 1973—7.6% vs. 11.3%. Those numbers are all the more dramatic,

Diversified companies

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Multicompanies												
Esmark	1	25.1%	18.5%	0.6	4	14.8%	12.3%	3.5%	23	–5.5%	1	21.8%
American Brands	2	22.1	19.5	0.2	3	16.5	15.2	5.6	8	8.6	2	18.0
IU International	3	21.1	13.1	0.8	11	9.4	8.0	2.2	21	1.8	4	13.3
Minn Mining & Mfg	4	21.1	18.5	0.1	1	18.3	16.1	9.6	5	11.6	8	11.5
General Electric	5	20.3	19.4	0.1	2	18.3	17.7	7.3	6	9.9	7	12.0
Martin Marietta	6	17.9	22.3	1.4	9	11.4	6.4	2.8	1	17.8	5	12.7
American Standard	7	17.7	8.5	0.4	7	12.8	6.4	2.4	17	6.0	9	10.2
Rollins	8	17.1	1.8	0.0	5	14.7	1.9	1.0	4	12.8	11	7.5
Westinghouse Electric	9	15.4	12.8	0.2	6	13.7	12.1	4.3	12	7.8	3	15.5
Borg-Warner	10	13.5	12.1	0.2	8	12.3	10.9	5.1	7	8.9	6	12.5
City Investing	11	13.0	9.7	1.2	13	9.2	8.5	2.2	2	15.3	10	9.5
FMC	12	12.8	12.1	0.3	12	9.3	8.6	4.6	11	7.9	12	7.1
Household Intl	13	11.8	13.5	2.1	19	6.8	7.3	2.5	3	14.1	15	0.9
Corning Glass Works	14	11.5	9.7	0.4	10	9.9	7.3	6.2	14	7.4	13	5.7
Union Carbide	15	11.1	4.3	0.4	18	8.1	3.8	2.5	10	8.0	16	0.9
Intl Tel & Tel	16	10.9	10.1	0.5	16	8.9	8.5	4.2	18	5.9	14	3.3
Textron	17	10.2	6.7	0.2	15	8.9	6.4	2.9	19	3.8	18	–1.7
RCA	18	10.1	8.4	0.8	14	9.0	7.8	2.5	9	8.2	19	–2.2
National Distillers	19	9.8	4.4	0.2	17	8.1	4.5	2.3	15	6.3	20	–2.4
Olin	20	8.2	6.9	0.3	20	6.5	5.7	3.0	16	6.1	17	–0.9
AMF	21	6.5	def	0.4	21	5.4	def	def	20	1.9	21	–6.8
Koppers	22	5.1	0.5	0.4	22	5.3	2.8	0.8	13	7.5	23	–16.2
U S Industries	23	3.1	7.8	0.2	23	3.6	6.8	3.0	22	–4.7	22	–11.0
Medians		12.8	9.7	0.4		9.3	7.3	2.9		7.8		7.1
Conglomerates												
Teledyne	1	26.2%	12.0%	0.3	2	19.8%	10.4%	8.7%	20	7.9%	3	24.5%
Litton Industries	2	24.7	14.0	0.1	4	17.3	11.1	4.9	21	6.3		D–P
Raytheon	3	23.0	17.4	0.0	1	22.0	17.0	5.2	7	15.1	5	17.8
Lear Siegler	4	22.1	15.2	0.3	5	14.8	12.1	4.5	13	12.3	6	16.0
Northwest Industries	5	21.3	1.7	0.5	8	12.5	2.3	0.6	19	9.4	8	13.8
Whittaker	6	19.6	9.7	0.5	3	18.4	14.5	2.0	8	14.6	2	31.4
Fuqua Industries	7	18.6††	39.8	2.7	17	8.3††	17.0	5.4	6	15.6	1	42.0
Alco Standard	8	18.0	14.3	0.4	6	13.1	10.8	2.0	5	16.4	11	10.1
TRW	9	17.4	12.2	0.2	10	11.5	8.6	3.5	15	10.9	13	7.7
Scott & Fetzer	10	16.3	15.4	0.4	6	13.1	12.5	5.0	12	12.8	14	6.6
United Technologies	11	16.3	14.7	0.3	9	12.1	11.0	3.4	2	21.1	12	8.9
Figgie Intl Holdings	12	15.8	13.1	0.6	14	9.1	8.8	3.3	22	6.2	7	15.2
W R Grace	13	15.0	7.1	0.5	11	10.4	5.5	2.6	17	9.7	15	6.4
Kidde	14	14.5	10.7	0.6	12	9.6	7.7	3.3	11	13.1	10	11.8
Ogden	15	14.2	10.2	1.1	15	8.7	7.5	3.0	23	5.2	18	3.4

Note: Explanation of Yardsticks calculations on page 38.
††Three-year average D–P: deficit to profit; not ranked. def: deficit.

and worrying since conglomerates are heavily weighted to capital-intensive businesses, where they often enjoy a commanding market share.

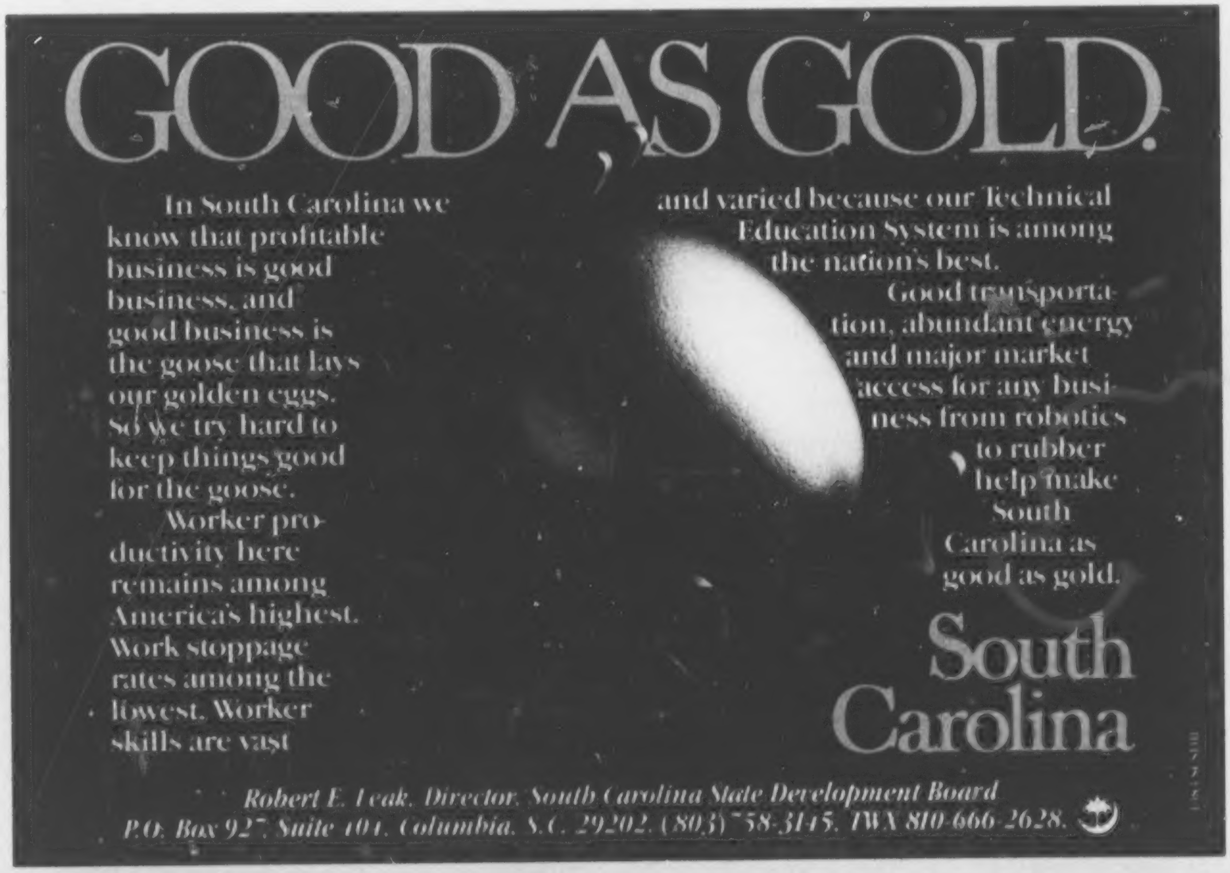
It all boils down to this: The old-time conglomerate à la Jimmy Ling and Charlie Bluhdorn is disappearing. High interest rates helped kill it, but more basically it was an idea whose time never came: A management can do only so many things. "Constant diversity is a trap," says Ken Semelsberger, Scott & Fetzer vice president for finance. The conglomerate had a good run—from the time Royal Little invented it in the 1950s—but it never really worked well. "Focused" conglomerate? Just another way of saying no conglomerate at all. ■

Diversified companies

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Allied Corp	16	11.6%	9.0%	0.2	18	8.2%	7.4%	3.7%	3	18.8%	17	4.4%
Signal Cos	17	11.5	3.4	0.3	13	9.4	4.0	1.3	10	14.1	16	6.2
Penn Central	18	11.0	5.8	0.3	16	8.3	5.4	4.0	1	41.7‡	4	22.4‡
Gulf & Western Inds	19	10.2	def	0.6	20	6.6	def	def	18	9.6	22	–2.8
Allegheny Intl	20	8.8	def	0.8	19	7.7	2.9	def	9	14.1	20	1.8
Amfac	21	8.4	def	0.8	21	6.3	def	def	16	10.2	21	–2.1
IC Industries	22	8.3	4.6	0.8	22	5.5	4.2	1.6	4	16.5	19	3.1
Bangor Punta	23	6.8	def	0.6	23	5.1	def	def	14	11.7	9	13.5
Sybron	24	3.5	def	0.5	25	4.4	def	def	24	3.7	23	–19.0
Chromalloy American	25	2.7	def	0.9	24	4.5	0.9	def	25	3.4	24	–27.2
Medians		15.0	9.7	0.5		9.4	7.5	3.0		12.3		8.3
Industry medians		13.9	9.7	0.4		9.4	7.5	3.0		9.5		7.5
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. def: deficit.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Many Forbes industry groups are recovery-bound. But the laggards still waiting for better days are holding down the median.

Who's where in the industry groups

THE COMBINED EFFECTS of the recession and the far-reaching transformation taking place in U.S. industry have left their scars. Among the 46 industry groups ranked here, the median return on stockholders' equity was 12.6% for the latest 12 months, compared with 12.7% one year ago. This is an eight-year low.

The five-year average return on equity is also down, from 15.9% to 15.1% last year. Nevertheless, the magnitude of the drop was relatively slight considering the severe winds that have buffeted the economy in recent years.

Another factor to consider is this: If the absolute figures for return on equity didn't look very good, the real rate of return showed definite improvement in 1983.

What do we mean by "real" rate of return? We are referring to the rate of return adjusted for inflation. Inflation over the 12-month period monitored by the 1983 figures ran at a comparatively mild 2.9%, as compared with 5.1% in last year's survey. Thus the real rate of return was 9.7% in 1983, compared with the 7.6% return in 1982.

Forbes uses medians rather than averages to track industry performance. This filters out distortions caused by windfall profits at the top or staggering losses at the bottom. Why are the medians useful? Because they are a standard for measuring individual companies. Did they do better than their industry's median? Or worse?

Industry groups that performed in 1983 close in line to the all-industry median include contractors, insurance, natural gas, apparel and household goods.

There are only a handful of industry groups that fell from being above the all-industry median in last year's annual report to being below the Yardstick this time around; the leisure industry is an example. Industry groups such as computers, food processors and electronics couldn't keep pace with their levels of the previous year.

Oilfield drillers and services registered the biggest decline. Last year this group had a 23% median return on equity for the latest 12 months. It is now a paltry 1%.

From being the most glittering of businesses, oil services overnight became one of the most tarnished of industries. In statistics it's called regression to the mean. Or, in more homely language, the pride that goeth before a fall.

Industry medians

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Industry	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Brokerage	**1**	**22.9%**	**29.5%**	**0.5**	**1**	**18.5%**	**22.7%**	**6.5%**	**1**	**34.3%**	**1**	**28.0%**
Tobacco	**2**	**22.1**	**19.5**	**0.5**	**13**	**13.1**	**12.4**	**5.6**	**26**	**11.9**	**3**	**18.2**
Health care	**3**	**19.9**	**18.0**	**0.4**	**11**	**13.3**	**14.5**	**6.8**	**10**	**16.2**	**2**	**19.7**
Beverages	**4**	**19.6**	**16.7**	**0.5**	**9**	**13.6**	**10.6**	**5.8**	**12**	**15.5**	**5**	**16.3**
Alcoholic beverages	—	16.8	14.8	0.3	—	10.9	10.4	7.0	—	12.6	—	21.7
Soft drinks	—	20.7	17.3	0.8	—	14.9	10.6	4.5	—	16.7	—	10.4
Oilfield drillers and services	**5**	**19.2**	**1.0**	**0.5**	**11**	**13.3**	**2.4**	**0.6**	**6**	**19.3**	**11**	**12.5**
Publishing	**6**	**19.1**	**19.8**	**0.1**	**2**	**17.0**	**15.5**	**7.3**	**14**	**15.1**	**9**	**14.5**
Toiletries and cosmetics	**7**	**18.7**	**15.2**	**0.2**	**7**	**13.9**	**12.6**	**6.0**	**29**	**11.2**	**27**	**8.5**
Aerospace and defense	**8**	**18.5**	**14.8**	**0.2**	**15**	**12.9**	**11.5**	**3.3**	**23**	**12.4**	**10**	**12.7**
Drugs	**8**	**18.5**	**19.0**	**0.2**	**4**	**15.3**	**16.2**	**10.6**	**30**	**11.1**	**21**	**10.5**
Office equipment and services	**10**	**17.8**	**14.3**	**0.2**	**6**	**14.0**	**11.9**	**3.9**	**5**	**19.4**	**14**	**12.2**
Office equipment	—	10.2	11.8	0.3	—	12.1	11.0	5.1	—	11.2	—	3.7
Office services	—	23.4	18.3	0.2	—	15.1	14.0	3.2	—	19.9	—	17.5
Specialty retailers	**11**	**17.7**	**17.3**	**0.5**	**13**	**13.1**	**12.0**	**3.2**	**9**	**16.4**	**7**	**15.5**
Drug chains	—	19.8	18.6	0.4	—	15.6	13.7	2.8	—	17.1	—	18.8
Fast food chains	—	19.4	19.9	0.6	—	12.1	12.1	4.2	—	18.5	—	18.6
Other specialists	—	15.7	15.0	0.5	—	12.5	11.4	3.5	—	14.6	—	9.1
Electrical equipment	**12**	**17.5**	**13.3**	**0.2**	**3**	**16.0**	**12.2**	**5.4**	**17**	**14.2**	**12**	**12.4**
Energy	**13**	**17.4**	**9.9**	**0.4**	**19**	**12.0**	**7.1**	**3.3**	**8**	**18.8**	**14**	**12.2**
International oils	—	17.7	9.3	0.3	—	13.2	7.4	3.1	—	15.0	—	12.6
Other oil and gas	—	18.4	10.3	0.5	—	12.3	7.2	3.7	—	21.9	—	12.4
Coal	—	4.7	7.7	0.6	—	4.6	5.2	3.0	—	7.8	—	–23.4
Broadcasting	**14**	**17.1**	**13.7**	**0.4**	**5**	**14.7**	**9.3**	**5.4**	**22**	**12.8**	**20**	**10.9**
Truckers and shippers	**15**	**17.0**	**13.1**	**0.5**	**27**	**9.9**	**8.6**	**3.6**	**39**	**9.0**	**22**	**9.8**
Truckers	—	19.1	13.1	0.8	—	9.5	8.6	3.6	—	10.6	—	10.7
Other surface transportation	—	14.4	11.9	0.5	—	10.3	9.0	3.6	—	3.8	—	9.2
Supermarkets	**16**	**16.5**	**16.2**	**0.7**	**24**	**10.5**	**10.5**	**1.3**	**25**	**12.1**	**8**	**14.7**
Major chains	—	17.1	19.0	0.7	—	11.0	11.5	1.4	—	12.1	—	14.0
Regional chains	—	15.7	13.6	0.7	—	10.3	10.1	1.0	—	12.1	—	15.6
Contractors	**17**	**16.1**	**12.5**	**0.4**	**16**	**12.6**	**9.1**	**1.8**	**16**	**14.7**	**5**	**16.3**
Heavy construction	—	16.7	12.5	0.4	—	13.1	9.7	1.8	—	14.9	—	16.3
Home building	—	13.0	12.2	0.5	—	7.9	6.9	3.0	—	13.0	—	8.1
Leisure	**18**	**15.9**	**10.2**	**0.4**	**23**	**11.0**	**7.8**	**4.6**	**23**	**12.4**	**24**	**9.3**
Hotels and gambling	—	18.3	5.4	1.0	—	10.1	7.0	4.7	—	11.8	—	17.1
Entertainment	—	16.3	13.1	0.3	—	14.0	7.2	7.1	—	14.2	—	8.6
Recreation	—	13.8	10.3	0.3	—	11.8	9.8	4.1	—	12.4	—	7.7
Branded foods	**19**	**15.5**	**15.8**	**0.4**	**17**	**12.4**	**12.3**	**3.5**	**34**	**10.1**	**25**	**9.1**
Diversified	—	15.7	15.9	0.4	—	12.0	12.1	3.5	—	10.3	—	8.7
Specialized	—	15.5	15.8	0.3	—	12.6	12.9	4.1	—	10.1	—	11.0
Insurance	**19**	**15.5**	**12.4**	**0.1**	**7**	**13.9**	**11.6**	**6.9**	**20**	**13.0**	**12**	**12.4**
Life and accident	—	14.1	13.0	0.1	—	12.3	10.9	7.5	—	16.8	—	9.2
Fire and casualty	—	17.2	12.4	0.1	—	17.0	11.7	6.6	—	13.1	—	14.6
Multiple line	—	17.4	13.3	0.2	—	14.1	11.6	5.8	—	12.4	—	12.4
Natural gas	**21**	**15.4**	**12.3**	**0.7**	**30**	**8.9**	**7.2**	**3.4**	**7**	**19.1**	**28**	**8.1**
Producers and pipeliners	—	17.5	12.6	0.7	—	9.4	7.1	3.4	—	23.9	—	10.6
Pipeliners and distributors	—	18.9	15.3	0.7	—	10.4	8.7	5.0	—	19.7	—	10.5
Distributors	—	13.2	10.6	0.7	—	7.7	6.9	2.7	—	18.3	—	6.1
Wholesalers	**21**	**15.4**	**16.0**	**0.6**	**18**	**12.1**	**11.0**	**1.3**	**20**	**13.0**	**18**	**11.7**
Food distributors	—	13.1	14.8	0.6	—	10.2	10.7	0.8	—	13.6	—	10.9
Other wholesalers	—	17.1	17.8	0.4	—	13.1	13.8	2.0	—	11.7	—	12.7
Computers	**23**	**15.1**	**8.9**	**0.3**	**9**	**13.6**	**7.6**	**4.3**	**3**	**23.2**	**4**	**16.6**
Industrial equipment and services	**24**	**15.0**	**7.1**	**0.3**	**21**	**11.5**	**6.4**	**3.0**	**31**	**10.6**	**31**	**7.0**
Production equipment	—	13.2	1.7	0.3	—	11.1	1.9	2.4	—	9.9	—	3.3
Specialty equip, materials	—	14.6	8.2	0.3	—	12.0	6.7	3.2	—	10.2	—	6.8
Industrial services	—	20.8	18.3	0.5	—	14.7	11.0	6.0	—	25.0	—	22.1

Note: Explanation of Yardsticks calculations on page 38.

Industry medians

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Industry	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Electronics	25	14.9%	11.1%	0.3	21	11.5%	8.5%	5.0%	14	15.1%	19	11.3%
Banks	26	14.7	13.2	0.3	19	12.0	11.3	6.7	4	20.4	14	12.2
New York banks	—	14.7	14.6	0.5	—	11.6	11.4	5.3	—	21.7	—	12.3
Regional banks	—	14.6	12.9	0.3	—	12.1	11.3	6.9	—	20.3	—	12.2
Telecommunications	27	14.6	14.4	0.8	39	7.5	7.7	8.7	17	14.2	33	6.3
Food processors	28	14.1	9.2	0.4	25	10.0	7.2	1.7	32	10.5	23	9.4
Meatpackers	—	14.0	10.3	0.8	—	9.3	8.5	0.9	—	7.1	—	9.6
Agricultural commodities	—	15.1	8.3	0.3	—	10.7	6.9	2.1	—	13.0	—	7.5
Diversified companies	29	13.9	9.7	0.4	28	9.4	7.5	3.0	36	9.5	29	7.5
Multicompanies	—	12.8	9.7	0.4	—	9.3	7.3	2.9	—	7.8	—	7.1
Conglomerates	—	15.0	9.7	0.5	—	9.4	7.5	3.0	—	12.3	—	8.3
Chemicals	30	13.2	9.2	0.4	25	10.0	7.1	3.9	35	9.9	36	4.4
Diversified	—	11.6	7.4	0.3	—	8.8	6.0	2.8	—	8.9	—	–0.6
Specialized	—	15.8	11.5	0.4	—	10.7	7.5	5.3	—	10.7	—	10.8
Electric utilities	31	12.9	14.9	0.8	40	7.2	7.9	12.1	19	14.0	37	3.7
Northeast	—	12.6	14.9	0.8	—	7.3	8.3	11.1	—	12.9	—	4.7
Midwest	—	13.2	15.6	0.9	—	7.2	7.9	12.5	—	13.5	—	3.9
Southeast	—	12.4	13.9	0.8	—	6.6	6.9	11.1	—	13.8	—	3.0
Southwest	—	14.0	15.7	0.8	—	7.7	8.4	13.0	—	17.6	—	4.6
West	—	12.8	13.8	0.9	—	7.9	8.0	15.3	—	19.0	—	3.3
General retailers	32	12.5	13.8	0.7	29	9.3	10.4	2.8	27	11.7	29	7.5
Department stores	—	12.2	13.6	0.6	—	9.4	10.6	3.5	—	11.2	—	7.7
Discount and variety stores	—	12.9	14.1	0.8	—	9.3	10.3	2.3	—	11.7	—	4.9
Financial services	33	11.8	9.1	1.7	33	8.3	6.3	3.5	11	15.8	39	1.8
Packaging	34	11.0	6.4	0.5	35	8.0	6.0	1.9	33	10.3	35	6.1
Apparel	35	10.9	12.9	0.3	30	8.9	10.5	3.5	43	7.3	26	8.7
Clothing	—	12.2	13.7	0.3	—	11.0	11.2	3.6	—	7.8	—	11.7
Textiles	—	8.3	7.9	0.4	—	7.0	6.8	3.0	—	5.8	—	1.9
Shoes	—	22.9	20.3	0.2	—	17.0	16.2	4.3	—	11.9	—	19.1
Railroads	36	10.8	8.0	0.5	41	7.1	5.3	5.4	28	11.5	17	11.8
Household goods	37	10.6	12.7	0.4	32	8.5	9.7	3.8	37	9.4	34	6.2
Appliances	—	10.5	12.8	0.4	—	8.4	10.0	3.3	—	7.8	—	4.0
Housewares and furnishings	—	9.4	9.5	0.4	—	7.2	7.2	2.7	—	10.3	—	–2.3
Housekeeping products	—	16.4	17.7	0.3	—	13.6	14.2	5.6	—	10.1	—	8.3
Forest products	38	9.9	4.5	0.5	37	7.6	4.3	2.4	38	9.3	38	2.0
Nonferrous metals	39	9.4	def	0.6	34	8.2	1.8	0.4	40	8.9	32	6.4
Building materials	40	9.2	8.0	0.5	37	7.6	6.4	2.6	42	7.9	40	–0.1
Lumber	—	8.4	3.4	0.6	—	6.0	3.4	1.7	—	9.4	—	–5.2
Cement and gypsum	—	9.8	2.7	0.9	—	7.8	3.7	2.3	—	7.5	—	0.6
Other building materials	—	8.6	9.4	0.5	—	7.2	7.3	2.8	—	7.8	—	–4.6
Building equipment	—	14.8	11.0	0.5	—	11.3	8.5	2.8	—	9.3	—	10.3
Auto suppliers	41	8.9	8.4	0.4	36	7.9	6.8	2.7	41	8.2	41	–2.2
Tire and rubber	—	5.1	6.5	0.5	—	5.2	5.6	2.4	—	4.7	—	–7.8
Partsmakers	—	11.9	11.2	0.4	—	9.7	8.0	3.2	—	9.2	—	–0.2
The thrifts	42	6.9	21.0	0.3	42	6.8	18.9	4.6	2	23.7	45	–24.0
Construction, mining, rail equipment	43	6.5	def	0.7	43	5.8	def	def	44	5.8	42	–13.6
Heavy equipment	—	4.2	def	0.5	—	4.3	def	def	—	5.3	—	–22.7
Rail equipment	—	9.8	def	1.2	—	6.2	1.7	def	—	6.9	—	–0.2
Steel	44	4.2	def	0.5	44	5.1	def	def	45	5.6	43	–14.6
Autos and trucks	45	3.8	def	0.4	45	4.5	1.2	1.3	46	5.0	44	–17.3
Airlines	46	def	def	1.5	46	3.0	0.7	def	12	15.5	46	P–D
All-industry medians	—	15.1	12.6	0.4	—	10.8	8.6	3.5	—	12.4	—	9.4

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.

The true test of management is what kind of return it earns on its shareholders' capital. For growth without profitability is worse than no growth at all.

Who's where in profitability

EARNINGS ARE ONLY meaningful when expressed in terms of the size of the company that generates them. Earnings of $5 million might be fantastic for a tiny growth company but a near disaster for a Goliath like Mobil. The way to put earnings into perspective is to match them to shareholders' equity. Accountants call this ROE—return on equity—but we call it "basic profitability," and it is expressed as a percentage of equity capital. A company with $1 million in equity capital and profits of $150,000 would have an ROE, basic profitability, of 15%.

To see how most Yardsticks companies fared in profitability in 1983, refer to the report on page 250. The all-industry median ROE for the latest 12 months for all 1,008 companies is 12.6%, off a shade from 1982's 12.7%. No surprise that brokerage houses show the highest return, 29.5%. Tobacco is second again. Meanwhile, nonferrous metals, construction, mining and rail equipment, autos and trucks, steel and airlines all show negative returns. These are rough times for heavy industry.

Be warned, though: These figures for basic profitability can be distorted. A company may take huge writeoffs against stockholders' equity that shrink, temporarily at least, its equity base. Obviously, even mediocre earnings will look outstanding when expressed as a percentage of that shrunken equity base. End result: an extraordinarily high, and misleading, return on equity. In the past, both Geico and Lockheed were good examples of this. But they have since rebuilt their equity.

A decline in ROE, if from a very high base, isn't necessarily a danger sign. Apple Computer is still ranked number one with its five-year average ROE of 100.5%. But now look at Apple's performance for the latest 12 months—a still impressive, but significantly smaller, 28.4%. There is no way in the world that any company could continue earning 100% on equity. Competition always sees to that and certainly has in Apple's case.

Since return on equity only measures profits against what shareholders have invested in a business, and doesn't show what the company has borrowed, Forbes also calculates return on total capital—stockholders' equity plus long-term debt. Generally this is a more reliable measure of profitability because it measures the true amount of capital companies have invested in the business. Be cautious about a company with a high ROE but a mediocre return on capital; that company may be leveraged to the danger point and vulnerable to a downturn or setback. Look at Big Bear, a relatively new NASDAQ listing. This Ohio-based supermarket chain ranks sixth with its five-year average return on equity of 48.9%. But now look to the right at its five-year return on capital: just 16.4%, which ranks 150th. Big Bear's dynamic ROEs come from heavy debt leverage.

Using the federal government's gross national product price deflator as a rough guide, inflation has averaged 7.6% a year over the most recent five years. A third of the companies surveyed failed to show a return on capital that matched inflation in 1982, and in 1983 it got worse: More than 40% of the firms failed the same test. The outlook for next year is brighter as the economy continues to improve, but, clearly, profitability in U.S. industry isn't what it should be.

Who's where in profitability

	Return on equity			Return on capital		
Company	rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months
Apple Computer	1	100.5%	28.4%	1	110.4%	28.2%
Metromedia	2	80.6	55.1	8	31.5	18.2
NIKE	3	77.6	30.3	2	65.6	30.0
Coleco Industries	4	59.7	44.2	6	35.2	27.0
Subaru of America	5	59.2	45.8	3	54.1	39.1
Big Bear	6	48.9	35.9	150	16.4	17.3
Tandy	7	45.2	29.3	12	28.8	25.9
Fin Corp of America	8	42.8	82.0	20	25.3	52.7
Standard Oil Ohio	9	42.8	23.0	55	20.7	14.5
ROLM	10	41.4	10.9	5	38.3	10.5
Comdisco	11	40.8	46.0	34	23.0	30.8
L B Foster	12	39.8	def	621	8.8	def
ServiceMaster Inds	13	39.7	44.2	4	40.0	43.3
GEICO	14	38.6	24.9	39	22.2	20.4
Phibro-Salomon	15	36.5	25.1	14	28.1	19.0
Charter	16	35.8	3.3	53	20.9	5.3
Bruno's	17	35.3	28.8	31	23.5	22.3
SmithKline Beckman	18	35.1	26.4	9	31.2	23.3
Mitchell Energy & Dev	19	35.0	18.6	360	12.4	7.9
Student Loan Mktg	20	34.7	43.4	663	8.3	6.2
American Home Products	21	33.9	34.7	7	33.4	32.4
Federal Express	22	33.7	22.0	41	22.0	14.7
Schlumberger	23	33.6	21.7	11	31.1	20.3
Texas Oil & Gas	24	33.3	31.9	159	16.1	15.2
Limited	25	33.2	40.0	28	23.8	25.5
Wal-Mart Stores	26	33.1	33.0	44	21.5	21.1
Humana	27	32.6	34.2	364	12.4	14.7
Pulte Home	28	32.3	49.1	125	17.0	26.1
Dow Jones	29	32.1	31.3	13	28.8	27.8
Food Lion	30	31.9	26.9	19	25.7	21.2
G Heileman Brewing	31	31.7	28.7	43	21.9	14.5
Dun & Bradstreet	32	31.3	32.0	10	31.1	32.1
Wang Laboratories	33	31.3	20.8	59	20.5	15.3
Pioneer	34	30.7	21.2	138	16.6	10.8
MCI Communications	35	30.6	28.1	97	18.2	13.6
E F Hutton Group	36	30.3	31.1	22	24.8	22.7
EG&G	37	29.6	25.3	18	26.4	23.3
Todd Shipyards	38	29.2	17.1	126	16.9	10.4
General Cinema	39	29.2	54.3	165	15.8	22.0
Allegheny Beverage	40	29.0	35.3	252	14.0	10.2
Deluxe Check Printers	41	29.0	28.9	17	26.5	26.1
Global Marine	42	28.9	13.7	291	13.3	6.6
MEI	43	28.5	27.1	114	17.2	15.4
Tosco	44	28.3	def	531	9.9	def
Swift Independent	45	28.1	22.1	172	15.6	14.6
Tesoro Petroleum	46	28.1	12.9	161	16.0	10.1
VF	47	27.9	37.5	29	23.8	32.3
SEDCO	48	27.9	33.8	177	15.5	18.2
Kellogg	49	27.7	27.6	30	23.6	25.2
Worthington Inds	50	27.6	17.2	101	17.9	11.6
First Boston	51	27.6	29.5	15	27.6	29.7
Marsh & McLennan Cos	52	27.6	26.2	16	27.0	23.4
Natl Convenience Stores	53	27.5	23.1	284	13.5	11.1
Parsons	53	27.5	25.3	25	24.2	23.2
SCOA Industries	55	27.5	20.7	121	17.2	13.3
Occidental Petroleum	56	27.3	def	203	14.9	3.1
Lockheed	57	27.0	50.6	459	10.9	23.2
Super Valu Stores	58	26.8	22.6	90	18.5	16.2
James River Corp Va	59	26.7	25.0	137	16.7	17.5
Mission Insurance	60	26.6	12.4	32	23.5	11.7
Emery Air Freight	61	26.5	24.1	38	22.3	13.5
Tyco Laboratories	62	26.5	13.2	220	14.5	8.9
Electronic Data Systems	63	26.4	27.4	34	23.0	22.7
Allied Bancshares	64	26.3%	25.3%	27	23.9%	24.1%
Teledyne	65	26.2	12.0	67	19.8	10.4
Savannah Foods	66	26.2	35.1	114	17.2	25.4
Shaklee	67	25.7	28.0	68	19.8	23.2
Toys "R" Us	68	25.5	20.6	50	21.1	19.3
Pennzoil	69	25.4	12.9	316	12.9	7.1
First Executive	70	25.3	18.2	23	24.6	20.5
Melville	71	25.3	21.6	26	23.9	21.2
Dover	72	25.2	16.7	37	22.3	15.5
Esmark	73	25.1	18.5	205	14.8	12.3
Wendy's International	74	24.8	19.5	65	20.0	14.7
Turner Construction	75	24.8	25.4	46	21.4	17.4
Litton Industries	76	24.7	14.0	113	17.3	11.1
Dorchester Gas	77	24.6	12.7	239	14.2	7.2
Kelly Services	78	24.5	18.3	24	24.6	18.2
Freeport-McMoran	79	24.3	12.4	136	16.7	6.7
Abbott Laboratories	80	24.2	25.1	71	19.6	20.5
Levi Strauss	81	24.0	19.2	47	21.3	17.4
Fort Howard Paper	82	24.0	22.7	82	18.9	18.3
AMP	83	23.9	20.1	52	20.9	17.8
Nucor	83	23.9	10.5	87	18.6	9.4
ConAgra	85	23.9	19.8	139	16.6	15.5
Trinity Industries	86	23.8	7.0	83	18.8	6.6
Maytag	87	23.7	27.5	40	22.1	23.7
PHH Group	88	23.7	20.0	808	6.6	8.3
Philip Morris	88	23.7	23.7	303	13.1	12.4
Pioneer Hi-Bred Intl	90	23.6	13.1	58	20.5	12.2
American Stores	91	23.6	25.6	177	15.5	14.2
Nalco Chemical	92	23.5	18.4	36	22.9	17.8
Avon Products	93	23.5	14.9	33	23.1	11.7
United Energy Resources	94	23.5	5.7	152	16.3	4.5
Computer Sciences	95	23.4	11.0	208	14.7	9.1
Hilton Hotels	96	23.4	18.6	107	17.5	13.2
Big V Supermarkets	97	23.3	18.2	164	15.8	12.5
Houston Natural Gas	98	23.2	15.1	209	14.7	10.6
IBM	99	23.2	25.6	49	21.2	22.6
Fremont General	100	23.1	def	96	18.3	1.5
Western Co No Amer	101	23.1	def	424	11.5	2.9
Dean Foods	102	23.0	22.3	130	16.8	17.5
Raytheon	103	23.0	17.4	42	22.0	17.0
Ashland Oil	104	23.0	5.7	356	12.4	5.1
Waste Management	105	22.9	18.0	149	16.4	13.5
Brown-Forman Dist	106	22.9	21.6	102	17.8	18.5
Merrill Lynch	107	22.9	26.9	90	18.5	20.3
Valero Energy	108	22.8	13.7	428	11.4	7.5
Republic New York	109	22.8	18.6	174	15.6	13.6
Merck	110	22.8	20.2	76	19.2	15.8
McDonald's	111	22.8	21.7	290	13.3	13.3
Trust Co of Georgia	112	22.7	24.0	75	19.3	21.6
Resorts Intl	113	22.7	10.1	100	18.0	8.3
Bristol-Myers	114	22.6	22.9	51	21.0	21.5
Rite Aid	115	22.6	22.6	61	20.2	20.1
Alexander & Alexander	116	22.6	def	21	25.0	0.5
Loews	117	22.5	22.2	338	12.6	14.1
Entex	118	22.5	19.7	369	12.3	11.5
Albertson's	119	22.4	19.0	276	13.6	13.0
McGraw-Hill	120	22.3	22.5	60	20.2	20.8
Murphy Oil	121	22.3	16.3	262	13.9	11.3
Washington Post	122	22.3	23.9	99	18.1	20.9
Coca-Cola	123	22.2	19.9	62	20.2	16.4
Kaneb Services	124	22.1	16.2	296	13.2	9.4
Fairchild Industries	125	22.1	6.1	145	16.5	6.5
American Brands	126	22.1	19.5	148	16.5	15.2

*For some companies (as noted in the individual Yardsticks tables) the average return is for less than five years.
def: deficit.

Who's where in profitability

Company	Return on equity			Return on capital		
	rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months
Boeing	126	22.1%	12.4%	94	18.3%	8.9%
Capital Cities Commun	126	22.1	19.5	88	18.6	18.2
Lear Siegler	129	22.1	15.2	206	14.8	12.1
Eli Lilly	130	22.0	21.7	57	20.6	19.4
Lucky Stores	130	22.0	21.1	272	13.7	13.5
Snap-On Tools	132	21.8	16.4	77	19.2	14.8
Petrie Stores	133	21.8	16.6	45	21.5	16.1
General Re	134	21.8	18.7	47	21.3	18.4
American Intl Group	135	21.7	19.0	54	20.7	18.6
Masco	136	21.6	16.9	316	12.9	11.4
Cullum Companies	137	21.4	16.8	351	12.5	10.7
Gannett	138	21.4	20.0	120	17.2	15.5
Anixter Bros	139	21.4	10.8	167	15.7	8.5
Cabot	140	21.3	9.9	248	14.0	7.5
Northwest Industries	140	21.3	1.7	352	12.5	2.3
Chesebrough-Pond's	142	21.3	19.2	108	17.5	16.3
Foster Wheeler	142	21.3	14.2	85	18.7	13.4
Intl Flavors & Frag	144	21.3	19.7	63	20.1	19.0
Midlantic Banks	145	21.2	21.4	188	15.2	16.3
Texas Commerce Bshs	146	21.2	20.1	69	19.8	18.6
IU International	147	21.1	13.1	570	9.4	8.0
Atlantic Richfield	148	21.1	15.9	299	13.2	9.9
Minn Mining & Mfg	149	21.1	18.5	93	18.3	16.1
Emerson Electric	150	21.0	19.5	70	19.7	17.9
Marriott	151	21.0	20.3	467	10.8	9.3
Supermarkets General	152	21.0	19.3	398	11.8	12.1
A C Nielsen	153	20.9	22.1	64	20.1	21.1
USAir Group	154	20.9	12.7	388	12.1	8.9
Piedmont Aviation	155	20.9	6.8	513	10.2	4.5
Cole National	156	20.8	16.5	235	14.3	11.3
Revco D S	156	20.8	21.3	103	17.7	18.2
Walgreen	156	20.8	23.2	168	15.7	18.8
G D Searle	159	20.8	22.8	162	16.0	18.7
Storage Technology	160	20.8	0.6	184	15.3	2.8
Geo International	161	20.7	def	117	17.2	def
Pay Less Drug NW	162	20.7	18.8	303	13.1	11.4
Natl Medical Entrprs	163	20.7	18.0	362	12.4	10.4
MGM Grand Hotels	164	20.7	NE	533	9.9	5.7
American Express	165	20.7	21.6	112	17.3	15.9
Morton Thiokol	166	20.6	16.3	173	15.6	15.7
Roadway Services	166	20.6	20.2	71	19.6	19.8
Weis Markets	168	20.6	19.6	56	20.6	19.5
Lubrizol	169	20.6	12.6	79	19.0	11.8
United States Shoe	170	20.5	19.9	132	16.7	17.3
Purolator	171	20.5	21.9	193	15.1	15.6
Amer Medical Intl	172	20.5	22.4	375	12.2	12.9
Brunswick	173	20.4	10.3	401	11.8	10.7
Pneumo	174	20.4	27.2	377	12.2	14.1
Bally Manufacturing	175	20.4	5.4	158	16.1	6.2
Payless Cashways	176	20.4	21.8	183	15.3	17.1
Service Merchandise	176	20.4	18.4	288	13.3	11.8
General Electric	178	20.3	19.4	94	18.3	17.7
Square D	178	20.3	12.5	142	16.6	10.6
Auto Data Processing	180	20.3	16.8	134	16.7	14.0
Genuine Parts	181	20.2	17.6	73	19.5	16.9
Blount	182	20.2	21.7	305	13.1	14.9
Arkla	183	20.2	16.2	481	10.6	8.6
Mercantile Texas	183	20.2	19.1	151	16.3	15.6
Winn-Dixie Stores	183	20.2	19.2	110	17.4	16.9
CBI Industries	186	20.1	12.4	154	16.2	10.0
R J Reynolds Inds	186	20.1	16.1	218	14.6	11.5
Equifax	188	20.1	22.2	131	16.8	18.6
Old Republic Intl	189	20.1	17.6	78	19.1	15.4

Company	Return on equity			Return on capital		
	rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months
Ametek	190	20.1%	19.4%	214	14.6%	14.2%
Exxon	190	20.1	17.0	221	14.5	11.8
National Svc Inds	190	20.1	18.6	105	17.7	16.8
Louisiana Land	193	20.0	12.0	186	15.2	7.1
Wyman-Gordon	193	20.0	14.4	142	16.6	12.2
R H Macy	195	20.0	22.3	237	14.3	17.1
Anheuser-Busch Cos	196	20.0	18.7	407	11.7	11.2
Browning-Ferris Inds	197	20.0	21.5	270	13.7	16.1
Baker International	198	19.9	def	197	15.0	def
Beverly Enterprises	198	19.9	12.3	439	11.3	7.1
Cross & Trecker	200	19.9	1.7	89	18.5	1.9
Johnson & Johnson	201	19.9	17.9	80	19.0	16.8
Combustion Eng	202	19.8	13.6	319	12.9	9.8
Hewlett-Packard	202	19.8	18.0	81	18.9	16.9
Cox Communications	204	19.7	16.4	192	15.1	11.3
Sysco	204	19.7	18.2	179	15.4	13.9
Procter & Gamble	206	19.7	20.1	181	15.4	15.7
Giant Food	207	19.7	22.3	366	12.3	14.4
SONAT	208	19.6	18.7	410	11.6	10.3
Whittaker	208	19.6	9.7	92	18.4	14.5
Standard Oil Indiana	210	19.6	16.0	269	13.7	10.9
General Instrument	211	19.6	12.1	123	17.1	11.2
Bergen Brunswig	212	19.5	19.4	187	15.2	15.4
Engelhard	213	19.5	17.0	119	17.2	13.8
Unocal	213	19.5	14.2	281	13.5	10.4
Hannaford Bros	215	19.5	20.2	450	11.0	13.1
Hershey Foods	215	19.5	17.6	212	14.6	12.9
Std Comml Tobacco	217	19.4	13.9	152	16.3	13.2
Sundstrand	218	19.4	9.3	278	13.6	7.7
General Mills	219	19.4	20.8	200	15.0	16.1
State Street Boston	220	19.3	17.4	230	14.4	14.4
Combined Internatl	221	19.3	16.3	74	19.4	16.1
Tidewater	221	19.3	9.5	327	12.8	6.7
General Dynamics	223	19.3	23.0	223	14.5	17.4
Parker Drilling	224	19.3	def	237	14.3	0.9
Consol Freightways	225	19.2	12.5	182	15.3	10.2
Dr Pepper	225	19.2	5.9	66	19.9	6.8
Hospital Corp of Am	227	19.2	16.8	451	11.0	10.5
Reading & Bates	227	19.2	7.3	370	12.3	5.4
Cameron Iron Works	229	19.2	def	256	14.0	def
Upjohn	230	19.1	15.5	248	14.0	11.3
H J Heinz	231	19.1	20.6	204	14.9	16.3
New York Times	232	19.1	19.8	174	15.6	13.1
Universal Leaf	233	19.0	17.8	166	15.8	13.9
Flowers Industries	234	19.0	18.9	315	12.9	13.3
Longs Drug Stores	235	18.9	17.5	84	18.8	16.9
MAPCO	235	18.9	9.0	479	10.7	5.6
Petrolane	237	18.9	def	263	13.8	def
CPC International	238	18.9	16.1	188	15.2	13.1
Nabisco Brands	239	18.9	18.5	274	13.7	13.5
Warnaco	240	18.9	18.2	245	14.1	15.6
Ryder System	241	18.9	16.6	598	9.1	8.6
Ohio Casualty	242	18.9	12.3	86	18.6	12.3
Interpublic Group	243	18.8	16.5	104	17.7	16.4
H H Robertson	244	18.7	12.5	190	15.2	11.2
Gillette	245	18.7	19.7	258	13.9	14.2
Sanders Associates	245	18.7	16.4	111	17.3	14.4
E-Systems	247	18.7	25.6	106	17.6	24.7
Shell Oil	247	18.7	14.8	391	12.0	9.1
Times Mirror	249	18.6	17.3	214	14.6	12.0
Vulcan Materials	250	18.6	10.2	279	13.6	8.0
Meredith	251	18.6	20.1	349	12.5	12.9
Palm Beach	251	18.6	13.7	266	13.8	10.8

*For some companies (as noted in the individual Yardsticks tables) the average return is for less than five years.
def: deficit. NE: negative equity.

Who's where in profitability

Company	Return on equity			Return on capital			Company	Return on equity			Return on capital		
	rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months		rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months
Fuqua Industries	253	18.6%	39.8%	665	8.3%	17.0%	RepublicBank	316	17.4%	16.8%	200	15.0%	13.6%
Paine Webber	254	18.5	45.8	174	15.6	37.9	First Natl Supermkts	317	17.3	16.6	590	9.2	9.3
Transco Energy	254	18.5	14.4	672	8.2	7.2	Mobil	317	17.3	9.1	356	12.4	6.3
Baxter Travenol Labs	256	18.5	20.1	194	15.0	17.4	Illinois Tool Works	319	17.3	15.7	135	16.7	14.7
Rockwell Intl	257	18.5	18.8	217	14.6	15.9	Big Three Industries	320	17.2	8.4	299	13.2	7.0
Consolidated Papers	258	18.4	14.0	169	15.7	12.0	Pillsbury	321	17.2	16.0	429	11.4	11.2
Farmers Group	258	18.4	16.4	98	18.2	16.2	Raychem	321	17.2	10.8	170	15.7	9.8
Halliburton	260	18.4	9.5	171	15.6	8.6	Harvey Hubbell	323	17.2	14.0	155	16.2	13.2
Standard Oil Calif	260	18.4	12.2	225	14.4	9.4	Southern Union	323	17.2	10.6	533	9.9	6.3
Fluor	262	18.4	5.6	210	14.7	5.5	Culbro	325	17.1	7.2	478	10.7	7.0
Clorox	263	18.4	23.1	180	15.4	17.3	Stop & Shop Cos	326	17.1	22.3	527	10.0	11.5
Panhandle Eastern	263	18.4	10.1	547	9.7	5.5	Amer Hospital Supply	327	17.1	18.2	195	15.0	16.3
PepsiCo	265	18.3	14.7	294	13.2	10.4	Leaseway Transportation	327	17.1	12.2	560	9.6	8.2
Centex	266	18.3	13.6	664	8.3	8.3	InterNorth	329	17.1	15.4	519	10.1	9.4
Eastman Kodak	267	18.3	11.7	118	17.2	10.6	Jack Eckerd	330	17.1	13.5	140	16.6	13.1
Banc One	268	18.2	18.3	127	16.9	16.7	Rollins	330	17.1	1.8	210	14.7	1.9
Curtice-Burns	268	18.2	19.2	617	8.8	8.0	Edison Bros Stores	332	17.1	15.0	225	14.4	12.8
M/A-Com	270	18.2	9.3	109	17.4	7.8	Jewel Cos	333	17.0	16.4	480	10.7	10.3
CNA Financial	271	18.2	14.7	406	11.7	11.6	Texas Eastern	333	17.0	10.2	567	9.4	6.7
Fleming Cos	272	18.2	17.1	325	12.8	11.1	Barnett Banks Fla	335	17.0	18.8	233	14.4	16.7
Southwestern Pub Svc	273	18.2	21.3	646	8.5	10.6	Superior Oil	336	17.0	9.0	490	10.6	4.9
Cooper Industries	274	18.1	3.7	141	16.6	4.3	Southland	337	17.0	17.4	497	10.5	11.5
Amer Broadcasting	275	18.1	13.7	197	15.0	11.8	Sonoco Products	338	16.9	14.2	267	13.8	11.4
Phillips Petroleum	275	18.1	10.9	251	14.0	7.7	Zurn Industries	339	16.9	12.1	341	12.6	9.4
Warner Communications	275	18.1	def	255	14.0	def	United Telecom	340	16.9	14.7	683	8.1	7.4
Sun Company	278	18.1	10.7	338	12.6	7.2	Security Pacific	341	16.9	16.3	287	13.4	11.7
Nordstrom	279	18.0	18.6	312	12.9	13.5	Handy & Harman	342	16.9	6.8	395	11.9	5.9
Carnation	280	18.0	17.6	195	15.0	15.1	McLean Industries	342	16.9	19.0	656	8.4	9.8
Alco Standard	281	18.0	14.3	306	13.1	10.8	First Atlanta	344	16.9	19.0	298	13.2	15.1
Getty Oil	282	17.9	8.3	254	14.0	6.0	Air Prods & Chems	345	16.8	11.5	517	10.1	7.6
Martin Marietta	282	17.9	22.3	432	11.4	6.4	Moore Corp	346	16.8	13.5	243	14.1	11.9
Schering-Plough	284	17.9	14.4	145	16.5	12.0	Chic & North Western	347	16.8	5.2	813	6.5	4.7
ENSERCH	285	17.9	9.6	473	10.7	6.5	United Virginia Bshs	348	16.7	17.6	379	12.1	14.0
Kimberly-Clark	285	17.9	12.0	260	13.9	9.5	Fischbach	349	16.7	17.0	292	13.3	13.3
Bank of New England	287	17.9	16.0	280	13.6	12.9	First Union	350	16.7	19.1	301	13.2	16.6
Gelco	287	17.9	def	657	8.4	4.6	Holly Corp	351	16.7	10.1	341	12.6	7.9
Centel	289	17.9	16.8	693	7.9	7.7	USF&G	352	16.7	11.7	132	16.7	11.7
Dayton-Hudson	290	17.9	16.5	207	14.7	12.6	Oneok	353	16.7	8.8	519	10.1	6.5
Intel	291	17.8	12.0	129	16.8	10.0	Tektronix	354	16.6	7.8	231	14.4	6.9
Pfizer	291	17.8	20.2	239	14.2	16.7	PNC Financial	355	16.6	16.8	184	15.3	15.1
Pitney Bowes	293	17.8	14.3	327	12.8	9.8	American General	356	16.5	14.9	227	14.4	11.0
Jerrico	294	17.8	14.0	309	13.0	10.8	Rohr Industries	357	16.5	21.7	463	10.8	15.0
Avnet	295	17.7	11.1	144	16.5	11.0	First City Bancorp	358	16.5	9.9	160	16.0	9.6
American Standard	296	17.7	8.5	323	12.8	6.4	Hughes Tool	358	16.5	def	263	13.8	0.9
Zapata	297	17.7	11.7	568	9.4	7.0	Ball Corp	360	16.5	16.2	466	10.8	11.0
W W Grainger	298	17.7	13.4	121	17.2	12.4	First Security	360	16.5	15.4	391	12.0	11.2
Dexter	299	17.6	16.3	337	12.7	11.6	General Foods	362	16.5	15.8	295	13.2	11.6
Bankers Trust NY	300	17.6	15.8	242	14.2	13.2	Peoples Drug Stores	363	16.4	17.8	306	13.1	13.0
Fleet Financial	301	17.6	18.1	414	11.6	11.3	Valley National	364	16.4	11.9	156	16.2	11.9
KN Energy	301	17.6	19.0	619	8.8	9.0	Universal Foods	365	16.3	19.6	345	12.6	13.9
Hanover Insurance	303	17.6	13.2	114	17.2	13.1	Scott & Fetzer	366	16.3	15.4	306	13.1	12.5
Harris Corp	304	17.6	9.0	333	12.7	6.7	MCA	367	16.3	15.7	199	15.0	14.7
Consolidated Foods	305	17.5	18.6	350	12.5	13.0	Sterling Drug	367	16.3	15.4	227	14.4	13.3
Denny's	306	17.5	17.1	504	10.3	10.7	Pacific Resources	369	16.3	7.8	540	9.8	5.7
Whirlpool	307	17.5	19.3	157	16.1	18.0	United Technologies	369	16.3	14.7	386	12.1	11.0
Malone & Hyde	308	17.5	19.0	281	13.5	14.7	Tyler	371	16.3	9.7	324	12.8	8.4
Briggs & Stratton	309	17.5	8.9	128	16.9	8.3	Knight-Ridder News	372	16.3	14.8	213	14.6	13.2
Am Natural Resources	310	17.5	17.8	618	8.8	8.7	Tenneco	372	16.3	13.1	573	9.4	7.4
Brown Group	311	17.5	17.5	227	14.4	15.1	Federal-Mogul	374	16.3	14.2	360	12.4	10.1
Circle K	312	17.4	27.9	475	10.7	16.3	Flickinger	375	16.2	17.4	297	13.2	12.5
Perkin-Elmer	312	17.4	9.5	190	15.2	9.0	Thrifty Corp	376	16.1	18.4	416	11.6	12.1
Amerada Hess	314	17.4	7.4	383	12.1	4.9	Kemper	377	16.1	9.5	147	16.5	9.6
TRW	315	17.4	12.2	427	11.5	8.6	Alleghany	378	16.1	13.0	301	13.2	10.9

*For some companies (as noted in the individual Yardsticks tables) the average return is for less than five years.
def: deficit.

Who's where in profitability

Company	Return on equity rank	Return on equity 5-year average*	Return on equity latest 12 months	Return on capital rank	Return on capital 5-year average*	Return on capital latest 12 months
Emhart	378	16.1%	16.6%	263	13.8%	12.7%
R R Donnelley & Sons	380	16.1	17.5	261	13.9	14.2
Dynalectron	381	16.1	10.9	330	12.8	8.7
NCNB	382	16.0	16.8	335	12.7	13.4
Chubb	383	16.0	13.0	202	15.0	11.4
Tecumseh Products	383	16.0	13.7	163	15.9	13.3
American Petrofina	385	15.9	8.3	457	10.9	6.4
Bausch & Lomb	386	15.9	14.3	292	13.3	11.2
Caesars World	387	15.9	def	639	8.6	3.1
CBT	388	15.9	15.2	314	12.9	11.6
Waldbaum	389	15.9	15.9	481	10.6	10.7
American Greetings	390	15.8	15.7	389	12.0	12.4
Kroger	391	15.8	11.8	455	11.0	9.3
Sun Chemical	392	15.8	9.4	475	10.7	7.1
Figgie Intl Holdings	393	15.8	13.1	593	9.1	8.8
Mercantile Stores	394	15.8	16.4	356	12.4	13.4
Idle Wild Foods	395	15.8	7.5	338	12.6	6.5
Seaway Food Town	396	15.7	9.6	506	10.3	7.1
Digital Equipment	397	15.7	7.1	241	14.2	7.0
Oxford Industries	397	15.7	25.4	288	13.3	21.5
Citizens & Sthrn Ga	399	15.7	16.7	234	14.4	14.1
Wometco Enterprises	400	15.7	14.3	483	10.6	8.9
McCormick	401	15.7	16.1	344	12.6	13.3
Marsh Supermarkets	402	15.7	9.4	578	9.3	6.5
Crown Central Petroleum	403	15.6	0.2	547	9.7	1.5
Archer Daniels Midland	404	15.6	8.5	354	12.4	7.4
Gerber Products	405	15.6	15.8	256	14.0	13.2
Witco Chemical	405	15.6	15.0	470	10.8	9.9
Morrison-Knudsen	407	15.6	12.5	341	12.6	8.6
A H Robins	408	15.6	17.8	236	14.3	16.6
Transamerica	409	15.6	12.5	536	9.9	7.3
Iowa-Illinois G & E	410	15.6	18.3	739	7.4	7.9
St Paul Cos	410	15.6	12.4	216	14.6	12.1
Public Service Indiana	412	15.6	16.1	715	7.7	7.5
Saga	412	15.6	22.3	445	11.2	17.3
J P Morgan	414	15.5	15.2	258	13.9	14.1
Quaker Oats	414	15.5	9.5	436	11.3	7.4
U S Bancorp	414	15.5	10.9	394	11.9	8.8
Datapoint	417	15.5	4.0	124	17.1	4.3
Citicorp	418	15.5	17.1	516	10.1	9.1
Mercantile Bancorp	419	15.5	13.1	366	12.3	11.0
Avery International	420	15.4	15.7	419	11.5	11.8
Bank of Boston	420	15.4	15.7	409	11.6	12.9
Diversified Energies	422	15.4	15.0	517	10.1	10.0
United Illuminating	423	15.4	18.7	614	8.8	10.0
Westinghouse Electric	424	15.4	12.8	270	13.7	12.1
First Interstate Bancp	425	15.4	12.7	345	12.6	10.5
New England Electric	426	15.4	18.3	754	7.3	8.3
Brooklyn Union Gas	427	15.4	15.7	591	9.2	10.0
Dibrell Brothers	427	15.4	20.4	384	12.1	13.8
Texaco	429	15.4	9.0	433	11.3	7.3
Parker-Hannifin	430	15.4	7.9	327	12.8	6.9
Union Camp	431	15.4	10.7	461	10.9	7.0
McKesson	432	15.3	12.8	487	10.6	9.6
Gulf United	433	15.3	14.1	353	12.5	10.2
Carpenter Technology	434	15.3	6.6	248	14.0	5.2
Xerox	435	15.3	10.0	277	13.6	10.1
Cincinnati Milacron	436	15.3	def	446	11.1	def
Southwest Bancshares	437	15.2	11.6	246	14.1	10.5
North American Coal	438	15.2	23.1	824	6.4	6.4
Texas American Bshs	439	15.2	12.9	281	13.5	11.2
Dillard Dept Stores	440	15.1	20.8	575	9.3	12.8
Intl Minerals & Chem	440	15.1	8.4	494	10.5	6.5
Texas Utilities	440	15.1%	15.3%	659	8.4%	8.4%
Safeco	443	15.1	13.6	325	12.8	11.7
A E Staley Mfg	443	15.1	1.3	472	10.7	2.2
Central & South West	445	15.1	15.7	709	7.7	8.4
Northwest Energy	445	15.1	7.8	626	8.7	4.8
First Natl State Bcp	447	15.1	16.6	321	12.8	15.2
Gates Learjet	448	15.0	0.2	310	12.9	1.1
General Signal	448	15.0	10.3	244	14.1	9.6
Wm Wrigley Jr	450	15.0	16.0	224	14.5	15.5
Campbell Soup	451	15.0	15.3	319	12.9	12.6
W R Grace	451	15.0	7.1	498	10.4	5.5
Tyson Foods	453	15.0	22.8	637	8.6	10.7
PACCAR	454	14.9	5.3	247	14.0	5.1
Richardson-Vicks	455	14.9	10.5	221	14.5	9.2
Motorola	456	14.9	11.9	286	13.5	10.9
Dart & Kraft	457	14.9	15.6	359	12.4	13.0
Mountain Fuel Supply	458	14.8	19.0	602	9.0	10.2
Univar	458	14.8	7.2	547	9.7	5.9
Wachovia	460	14.8	16.9	218	14.6	17.1
NL Industries	461	14.8	def	405	11.7	def
Ralston Purina	462	14.8	23.8	460	10.9	16.9
Wisconsin Pwr & Lt	462	14.8	16.5	731	7.5	8.2
Alexander & Baldwin	464	14.8	13.5	501	10.4	9.5
Revlon	465	14.7	7.6	332	12.7	6.4
Ruddick	465	14.7	15.0	503	10.3	10.8
Irving Bank	467	14.7	12.3	410	11.6	9.6
Lowe's Companies	468	14.7	19.5	379	12.1	16.2
Pacific Lighting	468	14.7	15.7	606	8.9	9.7
Bank of New York	470	14.7	16.2	284	13.5	15.2
CBS	470	14.7	11.1	347	12.5	9.3
Business Men's Assur	472	14.7	13.9	253	14.0	12.8
Stanadyne	472	14.7	11.5	378	12.1	9.4
Stone Container	472	14.7	1.6	641	8.6	1.4
Intl Multifoods	475	14.7	15.2	462	10.9	11.3
No States Power	475	14.7	17.5	775	7.1	8.1
Aetna Life & Casualty	477	14.7	9.5	267	13.8	8.8
Continental Telecom	478	14.6	14.3	726	7.5	7.2
Southeast Banking	479	14.6	12.8	436	11.3	10.8
Heck's	480	14.6	6.3	543	9.7	6.2
Chemical New York	481	14.6	13.9	424	11.5	11.9
Golden West Finl	481	14.6	48.3	333	12.7	39.6
Johnson Controls	481	14.6	15.3	413	11.6	12.3
Indianapolis Pwr & Lt	484	14.6	16.4	746	7.4	8.2
NCR	484	14.6	13.5	313	12.9	12.3
Rohm & Haas	486	14.6	16.5	442	11.2	12.8
Newmont Mining	487	14.6	4.9	531	9.9	3.7
Kidde	488	14.5	10.7	554	9.6	7.7
Natl Semiconductor	488	14.5	def	420	11.5	0.2
Commercial Metals	490	14.5	7.1	410	11.6	6.6
Dennison Mfg	491	14.5	13.2	331	12.7	11.4
Manufacturers Hanover	491	14.5	14.0	417	11.5	9.8
May Dept Stores	493	14.5	16.3	524	10.0	10.7
InterFirst	494	14.5	def	354	12.4	def
Provident Life & Acc	495	14.4	12.4	232	14.4	12.4
Blue Bell	496	14.4	11.1	321	12.8	9.7
First Bank System	497	14.4	13.9	387	12.1	11.4
American Family	498	14.4	13.7	374	12.2	8.8
Southern Calif Edison	499	14.4	17.5	636	8.7	10.0
TECO Energy	499	14.4	15.0	785	6.9	7.1
Nash Finch	501	14.4	13.4	423	11.5	10.9
Colgate-Palmolive	502	14.3	15.2	402	11.7	12.6
Peoples Energy	503	14.3	11.7	753	7.3	6.5
Wisconsin Public Svc	503	14.3	16.6	758	7.2	8.1

*For some companies (as noted in the individual Yardsticks tables) the average return is for less than five years.
def: deficit.

Who's where in profitability

Company	Return on equity			Return on capital			Company	Return on equity			Return on capital		
	rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months		rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months
GTE	505	14.3%	15.6%	728	7.5%	7.8%	Cleveland Elec Illum	568	13.4%	15.9%	701	7.8%	8.6%
Ethyl	506	14.3	12.5	514	10.2	8.7	Pay'n Save	569	13.4	13.3	529	10.0	9.2
Northrop	506	14.3	14.8	316	12.9	13.4	Union Pacific	570	13.4	9.4	642	8.6	5.5
Royal Crown Cos	508	14.3	14.1	484	10.6	10.7	Safeway Stores	571	13.4	14.5	629	8.7	8.9
Honeywell	509	14.3	10.6	441	11.2	8.4	BankAmerica	572	13.4	7.7	439	11.3	7.7
Kansas Power & Light	509	14.3	16.5	736	7.5	8.3	Orange & Rockland	573	13.3	14.1	744	7.4	7.9
Sun Banks	511	14.2	14.6	311	12.9	12.9	Pacific Pwr & Lt	573	13.3	15.3	695	7.9	8.4
Best Products	512	14.2	12.8	579	9.3	6.6	Joy Manufacturing	575	13.3	0.6	426	11.5	1.0
Chase Manhattan	513	14.2	13.2	455	11.0	10.8	Harsco	576	13.3	7.1	444	11.2	6.4
George A Hormel	514	14.2	9.9	396	11.8	6.9	Donaldson, Lufkin	577	13.3	13.6	402	11.7	10.7
Capital Holding	515	14.2	14.0	272	13.7	11.8	First Wisconsin	577	13.3	12.8	451	11.0	11.5
Ogden	516	14.2	10.2	632	8.7	7.5	Frederick & Herrud	577	13.3	20.7	576	9.3	12.4
U S Home	516	14.2	10.7	726	7.5	5.4	Consolidated Edison	580	13.3	15.3	723	7.6	8.9
Federated Dept Stores	518	14.2	14.6	408	11.6	11.4	Dresser Industries	581	13.2	0.1	447	11.1	0.9
Gordon Jewelry	519	14.2	9.2	379	12.1	8.1	Federal Paper Board	581	13.2	4.3	706	7.8	4.3
Wells Fargo	520	14.1	12.5	453	11.0	9.5	Kansas City Pwr & Lt	583	13.2	17.6	818	6.5	7.6
MGM/UA Entertainment	521	14.1	13.1	494	10.5	7.2	Laclede Gas	584	13.2	12.3	719	7.6	7.5
Travelers	521	14.1	11.2	274	13.7	11.1	North Amer Philips	585	13.2	11.2	587	9.2	7.8
Commonwealth Energy	523	14.1	19.1	796	6.8	8.3	United States Gypsum	586	13.2	9.7	541	9.8	7.6
Consol Natural Gas	524	14.1	15.2	648	8.5	9.0	Mellon National	587	13.2	13.0	429	11.4	12.1
Insilco	524	14.1	13.4	585	9.2	9.1	Norton	588	13.2	4.9	438	11.3	5.0
Frontier Holdings	526	14.1	def	557	9.6	def	Pacific Gas & Elec	588	13.2	14.0	644	8.5	8.8
Corestates Financial	527	14.0	16.5	414	11.6	15.7	CFS Continental	590	13.1	14.8	565	9.5	10.7
Kerr-McGee	528	14.0	10.4	565	9.5	6.7	Hoover Universal	591	13.1	17.2	546	9.7	12.2
USLIFE	528	14.0	10.8	431	11.4	9.0	Beatrice Foods	592	13.1	15.3	490	10.6	11.8
Maryland National	530	14.0	12.6	397	11.8	10.4	PSA	593	13.1	def	655	8.4	0.7
Norfolk Southern	530	14.0	8.5	633	8.7	5.8	San Diego Gas & Elec	593	13.1	16.7	624	8.8	10.3
Arizona Public Service	532	14.0	15.0	625	8.7	9.0	Amsted Industries	595	13.1	def	335	12.7	def
Greyhound	533	14.0	10.3	510	10.2	8.5	City Investing	596	13.0	9.7	591	9.2	8.5
Rose's Stores	534	14.0	21.3	362	12.4	18.9	Gt Northern Nekoosa	596	13.0	8.7	583	9.3	6.2
PPG Industries	535	13.9	12.1	499	10.4	8.9	American District	598	13.0	13.7	579	9.3	9.4
Quaker State Oil	535	13.9	13.2	553	9.6	9.2	Wetterau	599	13.0	14.6	515	10.2	10.3
Ex-Cell-O	537	13.9	11.6	393	1.9	10.0	Central Ill Pub Svc	600	13.0	15.4	794	6.8	7.4
Stanley Works	538	13.9	11.2	398	11.8	9.7	Cincinnati G & E	600	13.0	15.2	735	7.5	7.9
General Host	539	13.9	13.1	665	8.3	7.6	Diamond Shamrock	602	12.9	7.4	623	8.8	5.7
N Y State Elec & Gas	540	13.8	14.3	662	8.3	8.5	Gulf Oil	602	12.9	9.3	502	10.3	6.9
Earle M Jorgensen	541	13.8	3.5	385	12.1	3.7	Torchmark	602	12.9	13.6	372	12.3	11.8
Illinois Power	542	13.8	16.5	731	7.5	8.2	Norwest	605	12.9	10.4	511	10.2	6.9
Duke Power	543	13.8	14.6	731	7.5	7.8	K mart	606	12.9	15.2	576	9.3	10.3
Milton Bradley	544	13.8	2.0	376	12.2	2.6	Central Illinois Lt	607	12.9	14.7	849	6.0	6.5
Allegheny Power	545	13.8	15.4	747	7.4	7.9	Dayton Power & Light	608	12.9	14.3	691	8.0	8.4
Long Island Lighting	546	13.7	15.0	597	9.1	9.7	Amstar	609	12.8	7.8	544	9.7	6.5
Kay	547	13.6	3.0	660	8.3	4.6	Hercules	609	12.8	11.4	508	10.3	10.2
Wisconsin Elec Power	547	13.6	15.6	739	7.4	8.5	National City	609	12.8	11.9	366	12.3	10.4
Coastal Corp	549	13.6	16.6	738	7.5	7.3	Super Food Services	609	12.8	19.3	615	8.8	10.0
Columbia Gas System	550	13.6	10.8	702	7.8	6.7	Monfort of Colorado	613	12.8	30.6	596	9.1	20.7
Perini	550	13.6	14.2	458	10.9	9.7	Borden	614	12.8	13.3	563	9.5	9.9
Zayre	552	13.6	17.2	568	9.4	11.6	Federal Co	615	12.8	12.8	417	11.5	11.6
Rainier Bancorp	553	13.6	12.1	373	12.2	10.8	Houston Industries	616	12.8	15.7	763	7.2	8.0
Squibb	553	13.6	15.0	467	10.8	12.2	FMC	617	12.8	12.1	582	9.3	8.6
Harcourt Brace Jovan	555	13.6	15.2	560	9.6	9.8	Potomac Elec Power	618	12.8	14.7	775	7.1	7.7
Dow Chemical	556	13.5	4.9	608	8.9	4.9	So New England Tel	618	12.8	14.4	749	7.3	7.9
Gulf States Utils	556	13.5	16.0	721	7.6	8.9	Westvaco	620	12.7	8.2	601	9.0	6.4
MidCon	556	13.5	12.1	639	8.6	8.0	Eastern Gas & Fuel	621	12.7	7.7	709	7.7	5.2
E I du Pont	559	13.5	9.2	420	11.5	7.4	Florida Power & Lt	621	12.7	13.9	811	6.6	6.9
Borg-Warner	560	13.5	12.1	370	12.3	10.9	Becton, Dickinson	623	12.7	6.2	477	10.7	5.2
Data General	560	13.5	4.9	390	12.0	5.2	International Paper	624	12.6	5.8	587	9.2	5.1
Union Electric	562	13.5	17.2	804	6.7	7.5	Rochester Gas & Elec	624	12.6	14.9	704	7.8	8.8
Montana Power	563	13.5	14.6	690	8.0	7.5	Echlin	626	12.6	14.5	471	10.7	11.9
Niagara Mohawk Power	563	13.5	15.6	689	8.0	8.9	McDonnell Douglas	626	12.6	13.5	348	12.5	13.3
Alcan Aluminium	565	13.5	0.7	564	9.5	1.9	Baltimore Gas & Elec	628	12.6	14.4	763	7.2	7.9
Seagram	565	13.5	8.7	526	10.0	7.3	National Can	629	12.6	5.5	598	9.1	4.8
Smith International	565	13.5	def	420	11.5	def	Central Steel & Wire	630	12.5	10.3	365	12.3	10.1

*For some companies (as noted in the individual Yardsticks tables) the average return is for less than five years.
def: deficit.

Who's where in profitability

Company	Return on equity			Return on capital		
	rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months
Fidelcor	630	12.5%	21.0%	486	10.6%	17.4%
Holiday Inns	630	12.5	12.6	511	10.2	10.0
Continental Group	633	12.5	9.5	619	8.8	6.9
Penn Power & Light	634	12.5	12.6	786	6.9	6.7
Time Inc	634	12.5	10.6	522	10.1	8.5
Delmarva Power & Lt	636	12.5	15.2	749	7.3	8.2
Allied Stores	637	12.5	13.8	604	9.0	9.0
Oklahoma Gas & Elec	638	12.4	15.4	806	6.6	7.7
Life Investors	639	12.4	11.1	404	11.7	10.3
Carolina Pwr & Lt	640	12.4	12.9	796	6.8	6.8
Middle South Utils	641	12.4	13.0	771	7.1	7.5
Portland Genl Elec	641	12.4	12.8	703	7.8	8.6
American Tel & Tel	643	12.3	10.2	744	7.4	6.5
Thriftimart	643	12.3	7.5	494	10.5	6.7
Economics Laboratory	645	12.3	def	519	10.1	def
West Point-Pepperell	646	12.3	13.3	536	9.9	10.8
Society	647	12.3	12.4	448	11.1	10.7
Toledo Edison	647	12.3	14.5	721	7.5	8.1
Penn Traffic	649	12.2	13.0	559	9.6	9.6
Jefferson-Pilot	650	12.2	9.9	379	12.1	9.9
Southern Company	651	12.2	14.1	841	6.1	6.6
Interco	652	12.2	9.2	454	11.0	8.5
NICOR	653	12.2	3.0	777	7.1	2.9
Commonwealth Edison	654	12.2	16.7	800	6.7	8.1
Stauffer Chemical	655	12.2	def	604	9.0	0.5
Utah Power & Light	656	12.1	13.6	742	7.4	7.5
So Carolina E & G	657	12.1	13.2	828	6.3	6.6
Florida Progress	658	12.1	14.1	838	6.2	6.6
H J Wilson	658	12.1	5.3	609	8.9	5.2
Continental Illinois	660	12.1	6.8	487	10.6	6.5
National Fuel Gas	661	12.1	10.2	704	7.8	7.1
Crown Cork & Seal	662	12.1	7.9	485	10.6	6.9
Atlantic City Elec	663	12.0	14.9	773	7.1	8.0
Hartmarx	664	12.0	13.7	499	10.4	11.2
Boston Edison	665	12.0	12.2	857	5.8	6.0
Northeast Utilities	665	12.0	17.3	796	6.8	8.4
J C Penney	667	11.9	12.6	562	9.5	9.8
Trane	667	11.9	9.1	545	9.7	7.1
Transway Intl	669	11.9	7.2	506	10.3	6.7
American Natl Ins	670	11.8	11.5	400	11.8	11.5
Phila Electric	671	11.8	13.8	810	6.6	7.2
Avco	672	11.8	7.1	815	6.5	6.3
Ceco	672	11.8	9.1	550	9.7	7.6
Ohio Edison	672	11.8	13.4	762	7.2	7.6
Household Intl	675	11.8	13.5	792	6.8	7.3
Pub Svc Elec & Gas	676	11.8	13.0	803	6.7	7.3
Ryan Homes	677	11.8	15.1	505	10.3	12.2
Tribune	678	11.7	10.3		**	6.7
Liquid Air	679	11.7	8.3	594	9.1	6.1
White Consolidated	679	11.7	8.5	649	8.5	7.2
Allied Corp	681	11.6	9.0	673	8.2	7.4
NBD Bancorp	682	11.6	10.7	474	10.7	10.0
Crocker National	683	11.6	5.3	579	9.3	5.4
Puget Sound Pwr & Lt	684	11.6	10.1	778	7.0	6.2
Signal Cos	685	11.5	3.4	573	9.4	4.0
Morse Shoe	686	11.5	15.0	527	10.0	11.5
American Cyanamid	687	11.5	9.7	606	8.9	7.9
Corning Glass Works	687	11.5	9.7	538	9.9	7.3
Consumers Power	689	11.4	11.2	821	6.4	6.6
Fleetwood Enterprises	690	11.4	31.9	442	11.2	31.0
Munford	690	11.4	13.6	742	7.4	10.1
Warner-Lambert	692	11.4	16.9	687	8.0	10.2
Foxboro	693	11.4	3.1	487	10.6	3.2

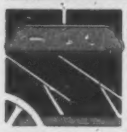
Company	Return on equity			Return on capital		
	rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months
Shawmut	693	11.4%	10.6%	463	10.8%	9.9%
Sherwin-Williams	695	11.4	15.2	712	7.7	10.7
Lincoln National	696	11.3	10.6	508	10.3	9.4
Parker Pen	697	11.3	def	434	11.3	def
Collins & Aikman	698	11.3	16.5	612	8.9	12.3
Centerre Bancorp	699	11.3	7.3	492	10.5	6.5
Public Service Colo	700	11.3	11.7	802	6.7	6.8
McGraw-Edison	701	11.2	6.8	524	10.0	6.4
Levitz Furniture	702	11.2	12.2	699	7.8	8.5
Ferro	703	11.2	8.5	533	9.9	7.1
Comerica	704	11.2	10.8	465	10.8	11.1
Dana	704	11.2	6.6	556	9.6	6.4
Colonial Penn Group	706	11.1	13.3	448	11.1	13.3
Hyster	707	11.1	0.1	554	9.6	0.5
Union Carbide	707	11.1	4.3	683	8.1	3.8
Easco	709	11.1	9.0	657	8.4	6.5
Louisville Gas & Elec	710	11.0	12.5	840	6.2	6.4
Penn Central	710	11.0	5.8	660	8.3	5.4
Burlington Northern	712	11.0	13.0	697	7.9	9.3
Godfrey	713	11.0	6.1	686	8.1	6.0
ARA Services	714	10.9	10.2	629	8.7	8.5
Duquesne Light	715	10.9	12.4	820	6.5	6.9
Intl Tel & Tel	716	10.9	10.1	612	8.9	8.5
Strawbridge & Clothier	716	10.9	12.9	678	8.1	9.0
Cone Mills	718	10.9	4.8	523	10.0	4.8
American Elec Power	719	10.8	10.7	782	7.0	6.6
Gould	720	10.8	8.2	627	8.7	7.1
DeSoto	721	10.8	13.9	600	9.0	11.5
Detroit Edison	721	10.8	13.0	852	6.0	6.2
Moore McCormack Res	721	10.8	1.7	736	7.5	3.2
California First Bnk	724	10.8	8.1	627	8.7	8.0
Washington National	725	10.8	7.3	529	10.0	7.1
Walt Disney	726	10.8	7.2	551	9.7	5.8
AmeriTrust	727	10.8	9.6	469	10.8	9.6
Carson Pirie Scott	728	10.7	11.7	682	8.1	8.3
Washington Gas Light	729	10.7	13.2	814	6.5	7.0
Stewart & Stevenson	730	10.7	6.9	629	8.7	5.7
Associated Dry Goods	731	10.6	12.9	551	9.7	10.5
Alcoa	732	10.6	def	675	8.2	1.8
Magic Chef	733	10.6	18.5	610	8.9	13.3
Kentucky Utilities	734	10.5	13.1	817	6.5	7.6
Control Data	735	10.5	8.8	787	6.9	6.3
Farm House Foods	736	10.5	1.3	570	9.4	6.8
Southern Pacific	737	10.5	22.7	781	7.0	13.1
Hammermill Paper	738	10.4	4.4	791	6.8	3.1
Monsanto	739	10.4	9.2	729	7.5	6.8
Scovill	740	10.4	12.9	670	8.3	9.8
Santa Fe Industries	741	10.4	7.5	771	7.1	5.1
National Gypsum	742	10.4	7.8	678	8.1	6.4
UGI	742	10.4	1.2	765	7.2	3.1
GATX	744	10.4	4.3	873	5.3	3.9
Riegel Textile	745	10.3	5.4	700	7.8	4.6
Sperry	746	10.3	6.1	651	8.4	5.4
Fieldcrest Mills	747	10.3	9.3	668	8.3	7.8
DEKALB AgResearch	748	10.2	3.5	731	7.5	2.3
Textron	749	10.2	6.7	611	8.9	6.4
Cluett, Peabody	750	10.2	11.8	637	8.6	9.3
Gulf & Western Inds	750	10.2	def	812	6.6	def
Michigan National	752	10.2	8.2	633	8.7	7.8
Scott Paper	752	10.2	6.2	698	7.8	5.2
Texas Instruments	754	10.1	def	493	10.5	def
Dominion Resources	755	10.1	11.1	825	6.4	6.6
Manufacturers National	755	10.1	12.5	583	9.3	11.6

*For some companies (as noted in the individual Yardsticks tables) the average return is for less than five years.
def: deficit. **Not available; not ranked.

Who's where in profitability

Company	Return on equity			Return on capital		
	rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months
RCA	757	10.1%	8.4%	602	9.0%	7.8%
Northern Trust	758	10.0	6.4	585	9.2	6.2
Anderson, Clayton	759	10.0	4.8	542	9.8	5.3
Arden Group	760	10.0	6.4	766	7.1	6.0
Cessna Aircraft	761	10.0	def	622	8.8	def
Marine Midland Banks	761	10.0	10.7	668	8.3	8.4
Yellow Freight System	763	10.0	16.8	758	7.2	11.6
Sears, Roebuck	764	9.9	13.3	587	9.2	10.9
Dorsey	765	9.9	13.6	741	7.4	10.2
Ingersoll-Rand	766	9.9	def	683	8.1	0.3
Willamette Inds	767	9.9	5.5	678	8.1	4.7
Weyerhaeuser	768	9.8	3.4	720	7.6	3.7
ACF Industries	769	9.8	0.2	837	6.2	2.4
LTV	769	9.8	def	888	5.0	def
National Distillers	769	9.8	4.4	678	8.1	4.5
WICOR	772	9.7	9.0		**	**
Zale	773	9.7	5.0	595	9.1	5.4
Raymond Intl	774	9.6	9.9	633	8.7	9.1
Colt Industries	775	9.6	17.6	729	7.5	14.6
Hawaiian Electric	776	9.6	8.3	848	6.0	5.7
Bemis	777	9.6	6.0	766	7.1	5.5
Grumman	778	9.6	18.2	665	8.3	11.9
CSX	779	9.6	4.1	805	6.6	4.0
Central Soya	780	9.5	8.3	713	7.7	6.9
City Federal S & L	781	9.5	21.7	558	9.6	21.2
Atlanta Gas Light	782	9.5	10.3	839	6.2	6.8
Eagle-Picher Inds	783	9.5	5.5	691	8.0	5.2
First Chicago	784	9.4	11.6	643	8.6	9.9
Berkshire Hathaway	785	9.4	7.7	572	9.4	8.0
Black & Decker	786	9.4	9.5	654	8.4	6.6
ASARCO	787	9.4	2.2	653	8.4	3.7
Roper Corp	787	9.4	14.9	756	7.2	11.0
Carter Hawley Hale	789	9.3	8.0	825	6.4	5.9
Pueblo International	789	9.3	7.6	773	7.1	6.0
Harris Bankcorp	791	9.3	8.7	616	8.8	8.2
SCM	792	9.2	3.0	758	7.2	3.4
BanCal Tri-State	793	9.2	13.7	713	7.7	11.8
Butler Manufacturing	794	9.2	def	673	8.2	0.2
Equitable of Iowa	795	9.1	8.9	652	8.4	8.8
Springs Industries	796	9.1	8.0	688	8.0	7.3
Williams Cos	797	9.1	2.4	858	5.8	2.5
Ideal Basic Inds	798	9.1	3.6	841	6.1	2.8
Shopwell	799	9.0	10.5	801	6.7	7.7
Champion Spark Plug	800	9.0	5.8	650	8.5	5.6
Continental Corp	801	9.0	1.9	646	8.5	2.0
Pennwalt	801	9.0	6.2	768	7.1	6.0
Adolph Coors	803	9.0	10.8	671	8.2	9.6
Potlatch	804	8.9	5.2	808	6.6	4.2
Pac.Gamble Robinson	805	8.9	6.3	717	7.7	6.4
Robertshaw Controls	806	8.8	11.8	748	7.3	9.5
Owens-Corning Fbrgls	807	8.8	9.8	761	7.2	7.3
Goodyear	808	8.8	7.0	751	7.3	7.0
Allegheny Intl	809	8.8	def	707	7.7	2.9
Phillips-Van Heusen	809	8.8	11.9	725	7.6	10.2
Gifford-Hill	811	8.7	1.2	696	7.9	4.1
King Kullen Grocery	812	8.7	11.1	677	8.1	10.2
Varian Associates	813	8.6	15.2	715	7.7	12.9
Owens-Illinois	814	8.6	2.6	827	6.3	2.9
McDermott Intl	815	8.6	7.4	830	6.3	6.0
Georgia-Pacific	816	8.5	2.0	855	5.9	2.4
No Indiana Pub Svc	817	8.4	10.5	869	5.4	6.0
St Regis	817	8.4	def	822	6.4	0.5
Rexnord	819	8.4	2.4	718	7.7	3.1
Amfac	820	8.4%	def	833	6.3%	def
Boise Cascade	821	8.4	3.8%	789	6.9	4.2%
Research-Cottrell	822	8.3	4.2	676	8.2	4.7
Lone Star Industries	823	8.3	def	707	7.7	1.3
Armstrong World Inds	824	8.3	9.1	768	7.1	7.6
Jim Walter	824	8.3	10.2	844	6.1	6.8
Deere	826	8.3	def	780	7.0	0.2
IC Industries	827	8.3	4.6	863	5.5	4.2
Amer Maize-Products	828	8.3	3.2	792	6.8	3.8
Delta Air Lines	829	8.2	def	868	5.5	def
Champion Intl	830	8.2	3.5	853	6.0	3.4
Mead	830	8.2	def	799	6.7	1.3
Celanese	832	8.2	3.1	830	6.3	3.2
Olin	833	8.2	6.9	819	6.5	5.7
Athlone Industries	834	8.2	def	789	6.9	1.4
Midland-Ross	834	8.2	def	709	7.7	def
Stewart-Warner	836	8.0	2.2	694	7.9	2.2
Burroughs	837	8.0	9.0	755	7.3	7.2
Di Giorgio	838	8.0	5.4	835	6.2	[illegible]
Fisher Foods	839	8.0	3.4	881	5.2	3.4
G C Murphy	840	7.9	11.1	830	6.3	8.2
Arvin Industries	841	7.9	7.8	815	6.5	6.6
Ampco-Pittsburgh	842	7.9	def	539	9.8	1.7
Outboard Marine	842	7.9	11.8	788	6.9	9.8
El Paso	844	7.9	14.4	879	5.2	7.0
UMC Industries	845	7.9	2.1	783	6.9	3.2
Hoover	846	7.7	12.7	888	5.0	10.2
Timken	847	7.7	def	756	7.2	def
Gas Service	848	7.6	3.6	869	5.4	3.8
Burlington Inds	849	7.5	7.7	843	6.1	6.3
Barnes Group	850	7.4	def	778	7.0	def
Longview Fibre	851	7.4	4.6	723	7.6	4.6
Brockway Inc (NY)	852	7.3	4.5	847	6.0	4.2
Interlake	853	7.2	3.6	835	6.2	4.0
Skyline	854	7.2	6.9	768	7.1	6.8
Amdahl	855	7.1	8.4	752	7.3	7.9
Anchor Hocking	856	7.1	def	849	6.0	0.1
Crane	856	7.1	def	866	5.5	def
BancOhio	858	6.9	4.8	795	6.8	5.2
Bangor Punta	859	6.8	def	885	5.1	def
General Motors	860	6.7	14.2	829	6.3	11.8
Kellwood	861	6.6	15.4	784	6.9	13.0
M Lowenstein	862	6.6	10.5	846	6.1	8.3
Copperweld	863	6.6	def	860	5.7	def
AMF	864	6.5	def	871	5.4	def
Louisiana-Pacific	864	6.5	2.7	898	4.6	2.1
Caterpillar Tractor	866	6.5	def	807	6.6	def
Dayco	867	6.5	1.8	886	5.0	3.9
Walter E Heller Intl	868	6.4	def	845	6.1	3.5
Manhattan Industries	869	6.4	12.9	854	5.9	8.9
Armstrong Rubber	870	6.4	13.1	834	6.3	10.0
Genl Tire & Rubber	871	6.4	6.0	862	5.5	5.5
Reichhold Chemicals	872	6.3	8.4	878	5.2	6.1
Western Union	873	6.1	9.1	849	6.0	7.2
Kaiser Alum & Chem	874	6.0	def	890	4.9	def
Bucyrus-Erie	875	5.9	def	856	5.8	def
Acme-Cleveland	876	5.9	def	887	5.0	def
Sheller-Globe	877	5.9	10.2	880	5.2	7.4
Avondale Mills	878	5.6	12.2	876	5.3	10.5
Cummins Engine	879	5.6	def	883	5.1	def
Amerace	880	5.5	def	906	4.4	def
Castle & Cooke	881	5.5	2.8	872	5.4	3.9
Libbey-Owens-Ford	882	5.4	4.8	859	5.8	5.3

*For some companies (as noted in the individual Yardsticks tables) the average return is for less than five years.
def: deficit. **Not available; not ranked.



use of computers for tight inventory control has been a major reason for this success. Return on equity might look even stronger if the company used more debt leverage. But, in contrast to many of the 5,000 or so jobbers to whom it sells, Genuine Parts keeps debt totals so small you need a magnifying glass to find them.

In this age of diversification, of course, it's important to remember that the numbers for several of the companies listed in the table are skewed by nonautomotive operations. Lear Siegler, Inc., for example, gets less than 30% of its sales from auto supplies; 60% of its business is in aerospace, machine tools and electronics. Highly diversified Borg-Warner and TRW get only about 30% of sales here, Rockwell International only about 18% (which is still well over $1 billion). Libbey-Owens-Ford gets roughly 40% of revenues from sales to the auto industry, PPG Industries, Inc., considerably less.

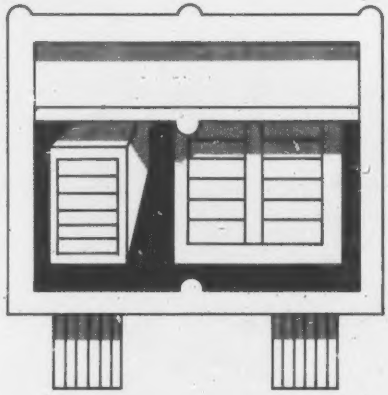
A glance at the bottom of the list is instructive, too. Take A.O. Smith, a company that's now back in the black after moneylosing years in 1980 and 1982. Smith specialties include frames for big cars and light trucks (mainly for General Motors), both of which are now selling well. So why is Smith hurting? Because of big losses in its agricultural-products operation. Meanwhile, Sheller-Globe Corp., still fairly highly leveraged despite a recent stock offering, is trying to blast its way out of the doldrums through capital spending and acquisitions.

Results for the tire and rubber group, most of which have diversified into almost anything that isn't round and doesn't roll, continue to range from dismal to uninspiring. Chemicals have been their favorite diversification, but in many product lines they have merely gone from one buyer's market to another.

What it all boils down to is that the dynamics of the auto supply business have changed as permanently in the last several years as those of the industry it serves. Companies that fail to rework their strategies accordingly may find the sledding even tougher in the years ahead. ■

If you're an aggressive trucker with access to capital, the future is bright. If not, there isn't much you can do about it.

Truckers and shippers



By Lawrence Minard

"Never before have we seen so many companies losing money while a very few firms are making piles of money and heading hogwild into the future," says Ronald Roth, who is director of statistical research at the American Trucking Association.

Look at the Yardstick companies below. For most of them 1983 was a good year. For some it was a great year. Kansas City's big Yellow Freight System, for example, ranked second only to longtime industry profit leader Roadway Services on the Forbes Yardsticks with earnings of $36.4 million in 1983's first nine months, more than Yellow earned in all of 1981 and 1982 combined. Roadway Services, biggest and most profitable of the common carriers, earned 20.2% on equity and nearly as much on its debt-free capital. Roadway would have done better as 1983 progressed were it not for the fact that around 30% of its operating earnings came from interest on its $400 million cash hoard, which shielded Roadway from some of trucking's operating leverage as the economy recovered.

A $280 million cash position also helps to explain why Consolidated Freightways' latest 12-month return on equity dropped sharply from CF's five-year average. A much more leveraged trucker, IU International's $750 million (sales) Ryder/PIE division lost $10 million pretax in 1982, but chalked up $20 million pretax in 1983 and will probably earn over $40 million in the year ahead.

For the big truckers with money, or good credit lines, the winning strategy is obvious: Invest heavily in equipment and route expansion and slug it out for bigger shares of profitable markets. The new investment should help keep operating costs down and enable marketing men to offer superior service. It should also enable the surviving truckers to dictate pricing in the years ahead as the weaker trucking competitors fold.

Like the airlines, the deregulated trucking companies must watch that upstarts with lower cost structures don't skim away the most profitable business. This is especially true in the easy-to-enter truckload segment. Consolidated, Yellow and Ryder/PIE have all lost business to the upstarts but are now fighting back vigorously.

The best way for a trucker to fight low-cost competition is to offer superior service. Some of the majors are attempting to revive the old intermodal concept that was pioneered by shipping companies. Consolidated Freightways, which has been protecting its flanks by pushing deeper into regional markets, announced in 1983 that it would buy freight forwarder Air Express International. "We want to be able to move a shipper's goods from Yokohama to Indianapolis under one roof by however the customer wants it," says Consolidated spokesman Wilbur Grant. It also made sense since Consolidated already owns a domestic air freight operation. The Air Express deal came unstuck in July of 1983, but Grant says his company is looking for a similar acquisition and is expanding its own freight-forwarding operation.

Yellow Freight, meanwhile, is now reaping the rewards of its hub-and-spoke strategy. Over the last three years it has nearly doubled its freight terminals, over 430 today, at considerable cost to its past profitability. These terminals are tied into a cohesive system of 17 hub depots where Yellow's equipment and drivers are based. As a result, Yellow can both reduce deadheading and increase equipment utilization—and offer shippers more flexible schedules.

Not only is this a formidable defense against startup competition, but when "lane density"—the freight volume moving across a system—picks up modestly on certain routes, profits surge immodestly. Yellow Freight's third-quarter earnings rose 200% on a tonnage increase of just 15%.

This immense operating leverage is also beginning to work wonders for IU's Ryder/PIE. In 1983 it consolidated previously separate Ryder Truck Lines and PIE and thus boosted lane density overnight. Ryder/PIE's operating ratio—a trucker's operating expenses, divided by his operating revenues—dropped from over 100% in 1982 to a highly profitable 93% by September.

To the trucking industry's top brass it is a changed world. "Before deregulation," says Jack Schang, Ryder/PIE's president, "the successful companies were the efficient operators. Today that's not enough. Companies that remain operations-oriented and fail to focus on marketing will be the further casualties."

Schang practices what he preaches. In December he introduced a new shipment-tracing service whereby shippers can dial a toll-free number, punch in a purchase invoice number and immediately learn the whereabouts of their shipments.

In recent years the common carriers have been chasing profitable less-than-truckload (LTL) shipments. Few common carriers, under the ICC's suffocating glove, could offer the reasonably priced, tailor-made services demanded by the nation's largest shippers for their truckload hauls—lumber, say, or chemicals. Result: The full truckload business slipped away to the "private carriage" fleets owned and operated by the shippers themselves. William Legg and Michael Walker, two astute analysts at Baltimore's Alex. Brown & Sons, figure that private carriage now accounts for around two-thirds of all trucked tonnage.

But in time deregulation may reverse that, Legg and Walker argue. With operating authorities easy to obtain, a common carrier can now haul a load of steel one way and back-haul a truckload of lumber much more easily than when ICC permission was required for virtually every commodity. The common carriers will be welcomed by the private shippers. "Shippers don't want to be truckers," says Legg. "They are truckers only because until now they have had no alternative." A truckload specialist that Legg recently helped take public, Arkansas-based, nonunion J.B. Hunt (sales, $62 million), boasts an incredibly low 80% operating ratio.

The big truckers are getting the message. In 1983 IU International bought Alabama-based Poole Truck Lines (sales, $55 million), also nonunion and a truckload specialist. RLC's Matlack division has carved out a profitable niche transporting chemicals. This should benefit RLC in 1984 as Matlack's chemical company customers revive. Ryder System and Leaseway Transportation have both been aggressively expanding their automobile carriage operations, a lucrative segment of the truckload market as auto sales recovered in

Truckers and shippers

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Truckers												
IU International	1	21.1%	13.1%	0.8	4	9.4%	8.0%	2.2%	7	1.8%	2	13.3%
Roadway Services	2	20.6	20.2	0.0	1	19.6	19.8	7.7	3	10.8	3	11.9
Consol Freightways	3	19.2	12.5	0.2	2	15.3	10.2	4.8	5	8.0	4	10.7
Ryder System	4	18.9	16.6	1.0	5	9.1	8.6	4.2	1	19.0	1	22.8
Leaseway Transportation	5	17.1	12.2	1.1	3	9.6	8.2	2.8	2	10.9	5	6.2
Yellow Freight System	6	10.0	16.8	0.2	6	7.2	11.6	3.6	4	10.6	6	–7.7
RLC		**	6.9	1.6		**	5.5	2.1	6	3.0‡‡	7	–24.3‡‡
Medians		**19.1**	**13.1**	**0.8**		**9.5**	**8.6**	**3.6**		**10.6**		**10.7**
Other surface transport												
McLean Industries	1	16.9%	19.0%	1.5	4	8.4%	9.8%	4.9%	1	12.1‡‡	1	386.3‡‡
Alexander & Baldwin	2	14.8	13.5	0.5	1	10.4	9.5	11.6	3	3.8	3	8.5
Greyhound	3	14.0	10.3	0.4	3	10.2	8.5	3.6	5	2.5	2	9.8
Transway Intl	4	11.9	7.2	0.4	2	10.3	6.7	1.8	4	3.5	4	–1.4
American President		**	**	**		**	**	1.7	2	10.0‡‡		**
Medians		**14.4**	**11.9**	**0.5**		**10.3**	**9.0**	**3.6**		**3.8**		**9.2**
Industry medians		**17.0**	**13.1**	**0.5**		**9.9**	**8.6**	**3.6**		**9.0**		**9.8**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
‡‡Three-year growth. **Not available; not ranked.

the past year.

Of course, the big truckers will also face plenty of competition from the revitalized railroad companies, now that the ICC has lifted its proscription against the rails owning truckers. No one should be surprised by some large railroad-trucker mergers this year and in 1985.

The nationwide truckers are also bumping up against a new breed of tough, well-capitalized regional truckers with expansion plans of their own. Example: San Francisco's very profitable Viking Freight (revenues, $80 million) has forged agreements with midwestern and eastern regionals which collect and consolidate shipments and ship them by cost-effective rail piggyback to the West, where Viking delivers. Is Viking a regional or a national trucker?

Moreover, many regionals are nonunion shops. Labor accounts for around 60% of a unionized trucker's total operating costs, and union labor costs as much as 40% more than nonunion help. Thus a nonunion company like Viking enjoys a decisive cost advantage of up to 25% over its unionized competition. To redress such an advantage, unionized Consolidated Freightways in 1983 created two nonunionized divisions serving the West and Midwest.

That sensible move immediately induced a Teamsters' grievance. But this is less of a threat than it used to be. The Teamsters' truck-driver ranks have dwindled from around 300,000 in 1979— or 27% of all intercity drivers—to around 200,000 today, or 12%. Teamster leadership knows there is no alternative to wage givebacks and in 1983 proposed a rider to the National Master Freight Agreement that would have allowed employers to rehire laid-off Teamsters at sharply lower wages than they received before they were laid off. But when the proposal was put to a vote in October 1983, the rank-and-file deep-sixed it by a 7-to-1 margin. With the current Master Freight Agreement set to expire Mar. 31 1985, the giveback issue will soon heat up.

Uncompetitive wage rates explain why Greyhound Corp. earned a paltry 10.6% on equity in the latest 12 months. Its Greyhound Lines bus company has been priced out of many once-profitable routes by new bus companies and regional airlines with labor costs around 30% below Greyhound's. Thus a one-way Greyhound ticket from Newark, N.J. to Norfolk, Va. cost $56 last September, vs. $26 on People Express Airlines.

In November Greyhound management said leave the cost-cutting to us. It demanded that Greyhound's 12,700 unionized employees accept a 15% wage cut—and allow the company to hire new workers at rates comparable to those of Greyhound's competition. The workers refused and struck. Violence flared. But by December the union negotiators were recommending that the strikers accept an offer that gave management most of what it wanted.

A big problem for the trucking business is the Multi-employer Pension Plan Amendments Act of 1980. In practice, the act's provisions mean that a failing trucker's pension liability is often greater than remaining shareholders' equity.

Faced with the choice between shutting down and then receiving a huge pension bill from the government, or hanging on until the last equity dollar has been wrung out, most marginal truckers will opt to hold on—thus helping keep pressure on prices. And since the final extent of the pension liability is unknown, few solvent truckers want to risk acquiring failing lines. "While there is now open entry into trucking," says the ATA's Ron Roth of the paradoxical law, "there is no open exit."

Also hastening the demise of the inefficient truckers is the Surface Transportation Assistance Act of 1982, which became effective in 1983. To help rebuild the country's highways, the act adds a nickel-a-gallon tax on diesel fuel (bringing the tax to nine cents a gallon), and boosts annual user fees from $240 on a typical rig to $1,600 in 1984 and $1,900 by 1988. Because the user fee is payable whether the rig operates or sits in the garage, it will fall hardest on failing truckers with least-used fleets.

There was good news in the act for profitable truckers. Truckers may now haul, on designated national routes, trailers measuring 102 inches wide, vs. the old 96-inch standard. This is important because freight is loaded on 48-inch pallets, which can now be carried two abreast. Equally important, truckers won significantly more freedom to haul two 28-foot-long trailers—"doubles," as they're called—in place of one 48-footer. Doubles, say the truckers, give them much more flexibility, and orders for new trailers are pouring in.

For example, Ryder/PIE's Jack Schang says his company will spend $60 million in 1984, $28 million of it for 2,300 new doubles trailers. Roadway's secretary Doug Wilson says over 90% of Roadway's $124 million equipment spending budget for 1984 is earmarked for the smaller trailers. This order boom bodes very well for Transway International, whose trailer manufacturing division, Great Dane Trailers, worked virtually flat out during most of 1983.

But again, it is feast for a few, famine for most. Roadway can handle the costs of fleet renovation: It has no debt and $400 million in cash. So can most of the other Yardstick truckers, which either carry little debt or have the access to capital commanded by big companies. The majority of smaller companies, however, have neither the earnings nor the willing bankers to finance *their* new fleets. The result, as the ATA's Roth puts it, is a self-fulfilling prophecy whereby "the profitable companies are taking bigger and bigger market shares from a whole lot of companies that will continue to slowly die off." ■

NEW YORK CITY
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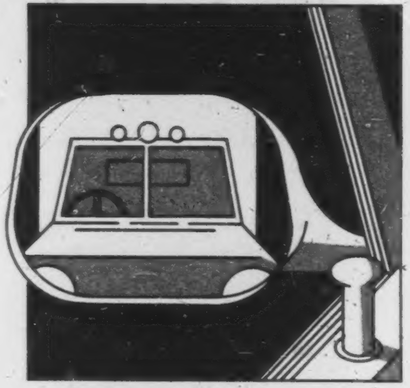
Idle Greyhounds in Manhattan

After a sometimes violent strike, workers prepared to concede.

If 1983 was the Year of the Car, 1984 will be the Year of the Truck—particularly heavy trucks.



Autos and trucks

By John R. Dorfman

DETROIT IS CONFIDENT that 1983's marvelous recovery will continue this year, despite wobbly sales in the late fall. Donald McPherson, chief of GM's North American car operations, predicts that 10.5 million cars, plus 3.5 million trucks, will be sold in 1984. "A darn good year," says he, adding that "Japan's share has to drop." By government fiat, that is, not because consumers would rather buy Detroit products—witness the premiums many dealers in Japanese cars are packing onto their products while dealers in U.S. cars are offering discounts. But the Japanese have extended their "voluntary" limit on exports to the U.S. through March 1985, which means Detroit will continue to enjoy strong nontariff protection. (The new passenger-car limit, starting Apr. 1, is 1.85 million vehicles, vs. 1.68 million the prior three years.) Detroit's sharply improved profits in 1983 should be judged in the light of that not inconsiderable protection.

How long can the industry hope to remain protected from overseas competition? "Reagan," argues Art Davis of Prescott, Ball & Turben, "is a free trader at heart. After the 1984 election, assuming he wins, he's not likely to fight for continued import quotas. Lee Iacocca would have you believe that, without quotas, imports would immediately take 35% of the market, and eventually maybe 50%. I'm more conservative. I figure 28% in 1985 and more than 30% in 1986." That's compared with the 25% or so share imports already hold.

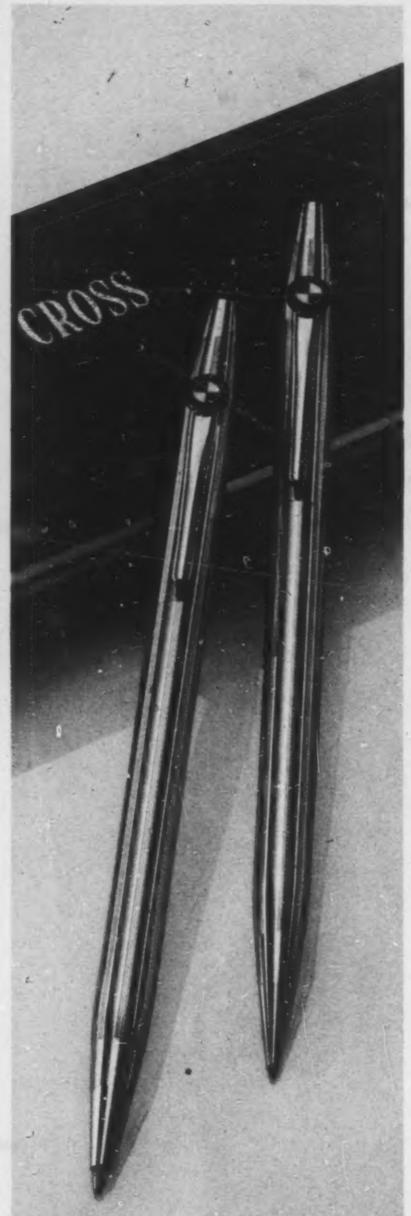
Detroit likes to talk about the ad-

Autos and trucks

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Subaru of America	1	59.2%	45.8%	0.2	1	54.1%	39.1%	4.5%	1	33.0%	1	65.3%
PACCAR	2	14.9	5.3	0.0	2	14.0	5.1	2.5	5	6.9	2	6.7
Signal Cos	3	11.5	3.4	0.3	4	9.4	4.0	1.3	2	14.1	3	6.2
Hyster	4	11.1	0.1	0.2	3	9.6	0.5	0.0	9	5.0	4	2.2
Sperry	5	10.3	6.1	0.3	5	8.4	5.4	2.9	3	8.4	5	2.0
Deere	6	8.3	def	0.4	6	7.0	0.2	def	4	8.4	6	−6.7
General Motors	7	6.7	14.2	0.3	8	6.3	11.8	3.8	6	6.2	7	−13.8
Caterpillar Tractor	8	6.5	def	0.7	7	6.6	def	def	7	6.1	8	−14.3
Fruehauf	9	3.8	def	0.8	9	4.5	1.2	def	8	5.8	9	−17.3
Clark Equipment	10	2.4	3.1	0.3	11	2.6	3.8	1.6	15	−1.2	10	−31.1
Mack Trucks	11	0.1	def	0.6	10	2.8	def	def	17	−7.4‡‡	11	P–D‡‡
Ford Motor	12	def	14.0	0.4	12	def	10.4	2.1	10	4.7	11	P–D
Allis-Chalmers	13	def	def	0.5	13	def	def	def	12	3.7	11	P–D
Intl Harvester	14	def	def	63.2	15	def	def	def	13	0.9	11	P–D
American Motors	15	def	def	2.9	16	def	def	def	11	4.4	16	D–D
Chrysler	16	def	NE	2.2	14	def	11.8	2.0	16	−4.7	16	D–D
Massey-Ferguson	17	def	NE	8.3	17	def	def	def	14	−0.6	11	P–D
Industry medians	**16**	**3.8**	**def**	**0.4**		**4.5**	**1.2**	**1.3**		**5.0**		**−17.3**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
‡‡Three-year growth. P–D: profit to deficit. D–D: deficit to deficit. def: deficit.
NE: negative equity.



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Mack class 8 Super Liner outside Fort Worth, Tex.
Suddenly, truckmakers have more orders than they can fill.

vantages the Japanese enjoy through a favorable exchange rate and tax structure. All true, but the Japanese are not to blame for Detroit's $25-an-hour wage-and-fringe bill, its shaky quality standards and its relatively inefficient plant. "It's true that in productivity, efficiency and cost of production, we are not yet fully competitive with Japan," says Allan Gilmour, Ford's Controller, adding, "but we have made progress."

If the recovery in cars rests on somewhat shaky underpinnings, the recovery in trucks does not. It is going to be a whopper. Ford's and GM's light trucks have been selling well for a year and are gaining share back from the Japanese. In fact, says Maynard Gordon, editor of *Motor News Analysis,* the traditional arrangement is now reversed. These days dealers can coax a few extra trucks out of manufacturers by agreeing to take extra cars. Heavy trucks only started to move in September, but demand is now flaring up fast. U.S. heavy-truck makers, such as Paccar, Mack and International Harvester, face little serious foreign competition.

On the Forbes Yardsticks, Paccar leads the truckmakers, with a 14.9% return on equity over the last five years. None of that comes from leverage, as the company is virtually debt free. The pricey, customized Kenworth and Peterbilt class 8 models Paccar puts out are every independent trucker's dream, so trucking deregulation could work to its advantage.

Mack, until 1983 part of Signal Cos. and now 45% owned by France's Renault, still holds about 18% of the class 8 (the transcontinental, 33,000-pounds-and-up variety) truck market (compared with 18% for Paccar and 23% for International Harvester). So Mack's numbers are bound to look better if heavy-truck sales follow anything like the track they typically do in a strong recovery. The 78,000 or so heavy trucks shipped in 1982 could nearly double by 1986. The route flexibility and pricing latitude triggered by deregulation have made the trucking industry more competitive with the railroads, a good omen for the heavy-truck makers. The truckmakers are also making today's big rigs 20% to 25% more fuel-efficient than those of a few years ago, another factor that could spur sales.

All this bodes well not only for Paccar and Mack but also for International Harvester, which is now roughly 60% trucks and 40% farm equipment.

This virtually guarantees hard-pressed Harvester's survival, but not without further capital restructuring. Glance at the debt-to-equity column in the table on page 109. No, that's not a misprint: Harvester really does have $63.20 in debt for each $1 of equity.

The average truck fleet has 2½ trailers for each tractor, which is why the new-born recovery in trucks is bringing a smile to the lips of Tom Reghanti, president of Fruehauf Corp. "We have had a tremendous upsurge," he says, pointing to a near-record five-month backlog. Fruehauf is gaining market share: It sells 25% to 30% of U.S. trailers, close to triple that of its nearest competitor, Great Dane Trailers (a subsidiary of Transway International). Fruehauf also has a boost from recent legislation allowing 48-foot-long, 102-inch-wide trailers on interstate highways. The new behemoth trailers mean that standard pallets can be carried side by side *(see p. 104)* instead of end to end and offer about 648 more cubic feet than the old ones.

Summer in autos, springtime for trucks. What about farm equipment? Still winter there. Even well-managed Deere is losing money, but with its huge new Iowa factories (FORBES, *Mar. 14, 1983*) it is prepared to gobble market share furiously once it can more fully use those new plants. Don't be fooled by the relatively good showing of Sperry in the Yardsticks. Its profits are coming from computer systems and guidance and control systems, not from the New Holland farm equipment division. As for Massey-Ferguson, the only good thing one can say is that it is less precariously leveraged than Harvester.

A few companies in our table fall into special categories. At the top of the list, as it has been since 1980, is Subaru of America. Approximately 49% owned by Fuji Heavy Industries, it does no manufacturing, only importing and distribution. Needing only thimblefuls of capital and enjoying demand for its product that exceeds the artificially limited supply, the company has racked up astonishing returns on equity. Some might say it deserves them. Subaru has built a loyal customer base, especially in snowbelt areas like New England and Alaska, where it was one of the first companies to offer an attractive small car with four-wheel drive to get through the ice and slush.

Caterpillar Tractor is, of course, best known as the world's largest maker of construction equipment. But it has a sideline in engines, where it has lately been giving Cummins Engine and GM a run for their money in the heavy-truck-engine market. A seven-month strike that ended in April helped neither operating results nor the balance sheet but did bring wage costs under some control. Despite pressing competition from the likes of Japan's Komatsu, Caterpillar remains one of the great American manufacturing companies.

In this industry, as elsewhere in the U.S. economy in 1983, much of the emphasis was on cost-cutting, on reducing break-even points. As far as this involves skimping on research and development and on equipment, the trend has its dark side. But to the extent it cuts fat and not muscle, the trend can only be beneficial. ■

Kan ban? Can do!

Dana Corp. Chairman Gerry Mitchell
Going the Japanese one better?

One of the key cost advantages of the vaunted Japanese manufacturing system is *kan ban*, the "just-in-time" parts delivery system used by Japanese carmakers. *Kan ban* allows them to keep inventories—and hence interest costs—low.

The concept of just-in-time delivery is certainly not exclusively Japanese. Back in the 1920s workers at Henry Ford's integrated River Rouge assembly plant in Dearborn, Mich. unloaded ore boats on Monday and converted the ore to steel and then to engine blocks by Tuesday afternoon.

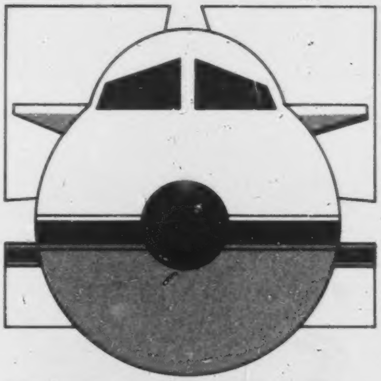
But the Japanese have developed *kan ban* in its modern form. Can just-in-time parts delivery be implemented in the U.S.? Yes it can.

Dana Corp. Chairman Gerry Mitchell says that American suppliers like Dana are even going the Japanese one better by allowing more flexible delivery. "With *kan ban* you don't change your assembly schedule," he says. U.S. manufacturers, he goes on, want more flexibility than that.

But it's interesting to ask why American carmakers need all this flexibility. Think, once again, of Henry Ford. His cheap, reliable vehicles were in such demand that he could afford to let buyers pick any color they wanted, so long as it was black. Perhaps Detroit now runs after the 10-day trends too much, offers too many choices, at a loss of efficiency. It's almost as if American manufacturers have become the swing producers of vehicles in the U.S. market.

Whatever direction U.S. carmakers go, it seems clear that they will be giving increased responsibility to key partsmakers. "Bit by bit," says Mitchell, "we are moving our assembly operations adjacent to car assembly plants. We are taking more responsibility for inventory control. We assemble axles at night that are used the next day. We have 19 regional centers offering overnight delivery on truck parts to truck assembly plants. Often a guy has shipped out a truck and he hasn't even paid us for the parts yet." This kind of speed and service, belated as it is, is one reason Mitchell thinks U.S. partsmakers can compete with low-priced imports *(see p. 99)*. "I don't think," he says, "that you can export from Brazil to the U.S. and have a just-in-time delivery system."—J.R.D.

The shakeout resulting from airline deregulation has only just begun. Let battle commence.



Airlines

By Howard Banks

"All of us are going to be subject to a rapidly changing competitive environment from here on in," says Robert Crandall, president of American Airlines. Although the industry outlook might appear to be improving along with the economy, the fact is that, until now, much of the true effect of the 1978 airline deregulation has been buffered and masked by outside events. The harsher they were, the more they served to dampen competition.

First the airlines had to deal with the doubling of fuel prices in 1979-80. That meant the majors had to phase out older gas-guzzling jets sooner than they had anticipated.

Then came the air traffic controllers' strike, which led to government-imposed control of takeoff and landing times—"slots" in airline parlance. This severely limited one of the hoped-for results of deregulation: the right to enter or leave any route, provided at least one carrier remained. In other words, it inhibited competition.

Then came recession and huge losses even for the largest and strongest carriers. Delta, for years the carrier with the best results, lost money for five straight quarters. The industry lost a collective $1 billion in the 12 months to the middle of 1983 before things turned around. Miraculously, the effect of this hemorrhage was mitigated by the financial markets. Convinced that the airlines would be among the first industries to feel the positive effects of economic recovery, and entranced with new issues, Wall Street underwrote over $2.5 billion in airline equity and bonds in the past two years or so.

This year all that will change. On the surface things look as if they are improving: By the end of the third quarter of 1983 the average airline fare in cents per mile was up 10% and traffic was up by 7% to 8%. There was no industrywide fare-cutting by carriers desperate for cash.

But now the full effect of deregulation will be felt for the first time. The last limits on airport slots are due to be lifted at midyear. Other factors favor increased competition: Fuel prices are stable or falling slightly, and economic recovery is gathering momentum. Who will flourish in this environment and who will perish is a function of relative strength of balance sheet and quality of management. But it won't be easy for anyone.

America West Airlines

An America West Boeing 737
"Offer something different."

Picking the obvious winners and those most at risk is relatively easy, despite the uncertainties. But for those airlines that fall in between, almost anything might happen.

Eastern Air Lines is still at great risk. Wage costs are not its problem; Eastern employees were the first to give back part of their regulated fat. The problem is that Eastern tried to spend its way out of the hole by buying new, more efficient equipment. This worked in regulated times if average operating costs could be reduced below the level allowed when fares were set. Trouble is, now the market sets fares. So Eastern merely weakened its already shaky balance sheet. With $2 billion in long-term debt, its debt-to-equity ratio is the third worst in the list. One bright spot: its profitable shuttle.

Republic Airlines, at the bottom of the Forbes Profitability Yardsticks and staggering under a plainly untenable 14.9-to-1 debt-to-equity ratio, is in even graver danger. Republic was created by a merger allowed because the two route systems connected end to end and therefore raised no anticompetitive questions. That is Republic's problem: Its management is stretched as tight as its route pattern and its equity.

In only marginally better shape are airlines like Western (with bad labor relations, a weak balance sheet and a highly competitive market) and Continental, which is otherwise known as Texas Air Corp. Industry leaders are waiting to see if Continental's chairman and president, Frank Lorenzo, succeeds with his bold strategy of using the bankruptcy laws to wrestle down his labor costs.

The jury is also out on another imaginative ploy: Frontier Airlines created a second, nonunion and therefore lower-cost parallel airline called Frontier Horizons, which will operate in the same market as its parent. If this move succeeds, it will likely be imitated.

Economic recovery came just in the nick of time for other airlines: Pan American, for example, is for now at least off the critical list, as the strong dollar triggered a big jump in overseas vacation travel. But there are plenty of questions about its international competitor, Trans World Airlines, which is being spun off from its holding corporation to go on its own. The outcome is likely to be that its sizable, loss-making domestic routes could shrink by perhaps as much as half. If TWA does contract that much in the home market, it could really be a blessing for the most obvious gainers this coming year: American, Delta, Northwest and United Air Lines. Despite ups and downs, these four have the strength, financial stability, markets and managements to adapt to competition.

Delta is the most conservative of the bunch. Yet listen to Chairman David Garrett: "You have to have a continuous program, almost, to relook at where you are flying, what cities you go into as new markets, to tie into the schedule." United has been the most aggressive in mass marketing. The tip-off to United's change in strategy is the fact that it has reentered many small markets in the West that it dropped early in deregulation. In 1984 it will operate in 43 of the lower 48 states.

Now that American has cost-cutting deals similar to United's, the fight will be on *(see box, opposite)*. Meanwhile, Northwest, with the airline industry's soundest balance sheet, is trying to shuck the image of being a fuddy-duddy, low-cost (poor service) airline. It is going after increased traffic, as well, and has ordered 20 Boeing 757s.

Backed by such things as United's and American's computer reservation systems (being imitated by Delta and others on a smaller scale) and the success of "frequent flyer" loyalty schemes, the market share held by these four has been increasing, to over 56% of all scheduled domestic traffic in 1983. This has raised fears among competitors that the collective market share of the four might reach 65% before the next recession.

This is unlikely. Certainly the Big Four will grow stronger. But the chances are they will channel future profits into strengthening their balance sheets rather than going for increased market share. A straw in the wind: American ended the year with almost $1 billion in cash but will add only a few new aircraft in 1984 (probably DC-9-80s, according to Crandall). Even Delta, which has been on an aircraft shopping spree, is cutting back now and has pushed back deliveries of some of the Boeing 767 and 757 aircraft it has on order, reducing its capital spending program over the coming three years to around $500 million a year. While Delta's Garrett denies that this was prompted by balance sheet considerations, it is a fact that in 1983 Delta's long-term debt had tripled, to around $1 billion. By year-end over $150 million had been trimmed from that so that future spending can now be handled by internal cash flow and the sale of secondhand aircraft.

Two other factors argue against such a market share push by the Big Four: First, Washington might be tempted to reregulate if that happened. Second, competition. The airlines once called regionals, like US Air and Piedmont, are also out there growing and making good returns—more than any of the big trunk lines, as one glance down the latest 12 months column in the Forbes return on equity rankings will attest. And then there is the group of new jet carriers (including a newborn son of Braniff), that has emerged since deregulation, on the wings of Wall Street's new issue boom. There are now 21 of them in service, and, while they controlled only 2.5% of traffic in 1983, they have had a sizable effect on the market power of the majors.

This has been no easy matter, of course, since even the majors are aggressively cutting costs these days. For the startups, the secret has been to find a marketing niche.

New York Air, owned 75% by Texas Air Corp., had three different approaches before it decided to go for the business traveler as well, and not only those interested in the lowest possi-

Airlines

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Federal Express	1	33.7%	22.0%	0.5	2	22.0%	14.7%	8.9%	1	50.8%	1	51.4‡
Emery Air Freight	2	26.5	24.1	1.4	1	22.3	13.5	3.2	13	13.8	5	2.4
USAir Group	3	20.9	12.7	0.7	3	12.1	8.9	4.5	6	19.5	2	26.9
Piedmont Aviation	4	20.9	6.8	1.5	4	10.2	4.5	2.1	4	25.1	3	13.8
Frontier Holdings	5	14.1	def	1.0	5	9.6	def	def	7	19.2	4	4.2
PSA	6	13.1	def	1.7	6	8.4	0.7	def	8	19.0		D–P
Delta Air Lines	7	8.2	def	0.9	7	5.5	def	def	9	15.5	6	–4.9
Northwest Airlines	8	3.2	4.2	0.0	11	2.4	3.4	1.7	10	15.1	7	–16.3
AMR	9	def	9.9	1.6	9	3.0	6.8	2.4	12	13.9	8	P–D
Trans World	10	def	def	1.5	8	3.9	3.6	def	17	10.4	8	P–D
UAL	11	def	2.0	1.5	12	1.6	3.8	0.7	15	11.0	8	P–D
Tiger International	12	def	def	4.8	13	1.5	def	def	5	23.8	8	P–D
Pan Am World Airways	13	def	def	3.7	17	def	def	def	11	14.7	8	P–D
Eastern Air Lines	14	def	def	5.4	14	1.3	def	def	14	13.5	8	P–D
Western Air Lines	15	def	def	5.2	16	def	def	def	16	10.5	8	P–D
Texas Air	16	def	def	8.5	10	2.9	def	def	2	46.6	16	D–D
Republic Airlines	17	def	def	14.9	15	def	def	def	3	42.1	8	P–D
Industry medians		**def**	**def**	**1.5**		**3.0**	**0.7**	**def**		**15.5**		**P–D**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. D–P: deficit to profit; not ranked. D–D: deficit to deficit. def: deficit.

ble fare. It turned a profit for the first time last summer. Others, such as Midway and America West, have also gone for the business market in similar ways: low but not rock-bottom fares; fewer, bigger seats; decent snacks; free drinks; and carry-on baggage space. Most important, from the airlines' view, they have centered their operations at hubs not dominated by even a big regional like Frontier. "You have to offer something different to persuade passengers to choose you over other carriers," says Mark Coleman, marketing vice president for America West, which plans to add two to three new aircraft every 90 days until it has over 40 in all.

One saving grace is the so-called halo effect: Low fares and new service attract people who would not otherwise have flown at all. For example, a new carrier, Jet America, began operating from a base at Long Beach, Calif., an airport ignored by the majors. American and United both moved in promptly. But instead of squashing Jet America, the addition of the two majors in this case made Long Beach a more attractive airport, and people began driving there instead of fighting the freeways to Los Angeles airport.

The classic example of the halo is the small-package overnight delivery business. Invented by Federal Express' chairman and president, Fred Smith, it has been widely copied. Now everybody is inured to the outrageous notion of spending at least $10 to do what the Postal Service should do for pennies. But look at the table. Emery Air Freight is right up there on the industry Profitability Yardsticks with Federal, outperforming all others.

Deregulation is also having a major effect on the aircraft that the airlines now want to operate. Summing it up neatly, US Air's chairman and president, Edwin Colodny, says: "Under deregulation, smaller is better." Why? Because—apart from their lower operating costs—three smaller planes replacing one big one can tackle three market segments instead of one.

Out in California, where United is back in all sorts of markets, the local carrier, Pacific Southwest Airlines (PSA), has simply switched to the peripheral airports around those big cities. The problem is that many of these airports, like Orange County and Burbank, are in very noise-conscious communities and some are in very small markets. So PSA ordered 20 of British Aerospace's BAe 146 "feederliners," which have 100 seats and the virtue of being quiet.

But as airline deregulation moves toward its final official act—the sunset of the Civil Aeronautics Board on Dec. 31, 1984—there is an ominous ring to one change under way.

Part of the fallout of the Continental "bankruptcy" was that other carriers refused to carry passengers holding Continental tickets. Until then tickets from a carrier in trouble had been accepted as an offshoot of the airlines' industrywide interline agreements under what was called the default protection plan. Now, United, American and Delta have led a move to end this industrywide deal and to switch instead to a system of bilateral agreements, so that they only make swap agreements with carriers not in any trouble.

Taken to an extreme not yet even hinted at, this kind of picking at the edges of the interline agreement (a cornerstone of the industry's development over the years) could end up so that passengers could not check their bags through on airlines with no agreement, instead being forced to buy separate tickets and all sorts of other horrors. Now, that really would give deregulation a bad name. ■

The (new) American way

American Airlines is now two airlines in one, says President Bob Crandall. There's the old, high-cost airline and the new, low-cost one—that is, new employees hired at substantially lower pay.

"Our new labor contracts make it possible for us to grow at costs that are very competitive with new carriers," says Crandall. "The larger we make the company, the greater average effect we have on overall costs and the more we get from the low-cost growth."

It means a couple of other major things, too. Instead of grounding older Boeing 727-100s as uneconomic, they can be profitably kept in service. That will give American 22 or 23 aircraft already paid for and ready to go that it would otherwise have had to replace. "When you sell old airplanes, they don't get ground up and made into tuna cans; they go to a competitor. Instead, now that we can afford it, why not fly them ourselves?" asks Crandall.

Lower break-even points will also allow American to compete in smaller market segments it could not profitably enter before. Crandall also expects the company to have more confidence in planning new equipment orders.

But that's for the future, he says. American has $1 billion in cash reserves, but unless interest rates fall sharply, Crandall doesn't plan to retire much of the company's $1.5 billion long-term debt, diversify out of the industry or go on an aircraft buying spree. Better to stay liquid.

What does he want to do? Crandall, known for being earthily outspoken, is the guy who was taped in February 1982 seemingly talking about fares with Howard Putnam, then boss of old, broke Braniff. He got into hot water with the Justice Department over that, and again over bias in the computer reservation systems that American and United dominate.

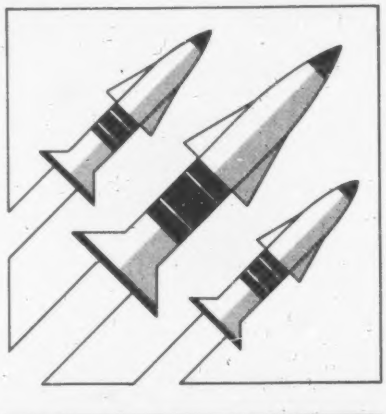
He concedes that the major carriers may have to give ground on the computer reservation matter. But all that does not inhibit him from coming up with ideas that will raise yet more flags at the Justice Department—which of course is certain to gain increased influence through its antitrust powers over the airline industry once the Civil Aeronautics Board dies.

For example, Crandall is no big fan of the CAB's old policy of opposing airline mergers unless one party was at death's door, and then to insist that the acquiror take on all the employees of the acquired. "That policy encouraged people to leave a company alone until it failed and then to acquire only its assets. Maybe that's not the smartest social policy," says Crandall.

He also favors greater standardization of aircraft, which today are often extensively modified to suit individual carriers' whims. Standardized aircraft, says Crandall, could be priced and depreciated according to their actual useful life, say 20 years, instead of the much shorter period often used, especially by normally profitable carriers like Delta and Northwest. And why not finance such deals off the airlines' books, through some kind of "Hertz-rent-a-plane," the way railroad tank cars are financed?

Nothing like a little adversity to stir the mental juices.—**H.B.**

For 1984 and 1985, order books are fat, and all's right with the world for most companies. How many other industries can say the same?



Aerospace and defense

By Subrata N. Chakravarty

IN THE THIRD YEAR of the Reagan defense buildup, 14 of the 30 aerospace and defense industry leaders ranked below were already showing improved profitability on the latest 12-month Yardsticks.

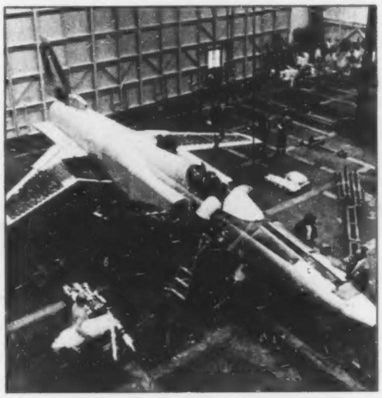
More than doubling its return in the past 12 months was General Dynamics, the nation's largest defense contractor, which kept rolling along with three major programs—the Trident submarine, the F-16 fighter and the M1 tank—and a host of smaller ones. The third $1.3 billion Trident was delivered to the Navy, one began sea trials and seven more are on order. With the Navy planning to build at least 15 of the gigantic submarines, the program should continue well into the next decade. The company also won a major victory in 1983 when Turkey picked GD's F-16 fighter for its air force. The contract, worth some $5 billion over the next five years, is the first time the cheaper F-16 has beaten out McDonnell Douglas' F/A-18 in head-to-head competition for foreign orders. GD believes it won't be the last. "We believe we have an edge in small countries, where cost is a more important factor," says GD Chairman David Lewis.

With the old Chrysler tank division a part of GD for a full year, Lewis says the company has solved some technical problems on the troubled M1 tank, and the tanks are now being turned out at the rate of 60 per month.

General Dynamics also makes sea- and land-launched cruise missiles, of the type some Europeans have been demonstrating against, and a variety of tactical missiles. In the wings, Lewis hopes, is a small, mobile companion to the MX ballistic missile, dubbed the Midget Man, on which GD has done much of the initial research for the Air Force.

GD did have a few setbacks in 1983. It lost $1 billion in potential business when the Army canceled the Viper antitank missile program because it proved unable to penetrate the latest Soviet armor. The fact that the price of the missile had also increased from $78 to $1,000 each probably didn't help. So the Army is now testing a Swedish antitank missile, the AT-4.

It was an important year for a couple of other contractors as well. Large orders for FMC Corp.'s M2 Infantry Fighting Vehicle (FORBES, *Nov. 7, 1983*) added that company to the aerospace and defense industry listing. Tenneco did not get added to the list, but the future of its Newport News division is assured for years to come, not only because it is the designer and one of the builders of the Los Angeles class attack submarines but also because it is the only builder of aircraft carriers. Under construction is the nuclear supercarrier *Theodore Roosevelt*. In 1983 Congress funded two more: the *George Washington* and the *Abraham Lincoln*. That will keep the yard busy well into the next decade.



Grumman's X-29
The technology of the future?

It was also a big year for Rockwell, which now gets over 60% of its revenues from government business. As the company began building the first B-1B bombers in the 100-aircraft, $20 billion program, revenues on the contract jumped from $650 million in 1982 to $1.7 billion in 1983 and should hit $2.2 billion in 1984. Also important for Rockwell is the fact that Congress finally, if reluctantly, funded the MX missile. Martin Marietta may be the prime contractor, but at this stage Rockwell has the largest share of the revenues. Work on the fourth-stage engine and the guidance and control system has so far brought in $1.5 billion.

Meanwhile, its defense electronics grew spectacularly, to $1.2 billion, in 1983. "We expect it to continue to grow sharply," says Rockwell President Donald Beall, with good reason. Rockwell also won a $1.2 billion multiyear contract for construction of the Navstar satellite navigation system for the Air Force. That helped ease the pain of the stunning loss to Lockheed of a 15-year, $6 billion operations contract for the space shuttle program, blamed by some on Rockwell's management control problems. Says Beall: "It hurts more from the standpoint of pride than it does financially."

McDonnell Douglas Corp. executives must have heaved a sigh of relief in 1983. MDC's major hope for defense revenues ($40 billion worth) is the F/A-18 strike fighter for the Navy. That program won approval and funding last year despite strong congressional criticism, (FORBES, *Apr. 11, 1983*), increasing the likelihood that most of the intended 1,400 aircraft will eventually be built. "The plane is really proving itself with the people that use it," says McDonnell Douglas CEO Sanford McDonnell.

For New York's Grumman it was the year of the lobbyist. The Navy had proposed halting production of the F-14 fighter and the A-6 bomber until the aircraft could be upgraded in 1989. Frantic lobbying and the support of the House Defense Appropriations subcommittee chairman, Queens, N.Y. Representative Joseph Addabbo, helped to persuade the Navy to reconsider its plans. For the moment, Grumman retains its stable of five aging Navy planes, plus the reconfiguration of an Air Force bomber for electronic warfare and several subcontracts. The company's performance was also sharply improved—return on equity almost doubled last year—by the disposal of its disastrous Flxible bus division. A major hope is the X-29 forward swept wing aircraft, whose technology might be important to future generations of aircraft.

But there were setbacks in the defense business, too. Todd Shipyards, 1983's industry leader, clung to its top ranking, but its 12-month return on equity dropped sharply because of the increase in equity, the recession in commercial shipbuilding and heavy capital expenditures to expand facilities. Also, a nine-week strike in two West Coast shipyards wiped out the company's second quarter. But all that, says Chairman J.T. Gilbride, is in the past. With $759 million in backlogged contracts for frigates, and the hope of additional contracts as well, "Nineteen-eighty-four will be a very satisfactory year," Gilbride predicts happily.

Not every defense contractor can say that. Take Northrop. On the Yardsticks, the company looks perfectly respectable, having improved its financial position enormously in 1983, turning a loss into a substantial profit in the first nine months of the year. In part that was the result of its 40% share of the F-18 program, its research contract on the "Stealth" bomber and navigation and guidance subcontracts for several missiles. The largest part of the swing, however, came from reduced expenditures on the F-20 fighter, which was to have been Northrop's shining light until the huge, hoped-for orders for the Stealth bomber materialized at the end of the decade. Alas, would 'twere so.

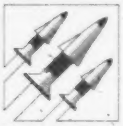
The F-20 is a follow-on to Northrop's earlier F-5, which was the workhorse of 30 air forces. But the F-20 is relatively cheap, versatile and independently developed, and paid for—and these seeming virtues, ironically, constitute a problem. The U.S. Air Force didn't find the F-20 technologically flashy enough to buy. Meanwhile, many of the nations that fly the F-5 and are the most likely customers for the F-20 have been offered

Aerospace and defense

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Todd Shipyards	1	29.2%	17.1%	0.2	5	16.9%	10.4%	3.1%	3	20.2%		D–P
Lockheed	2	27.0	50.6	2.0	20	10.9	23.2	3.9	20	9.7	25	–16.1%
Computer Sciences	3	23.4	11.0	0.4	10	14.7	9.1	2.2	4	19.9	10	14.8
Raytheon	4	23.0	17.4	0.0	1	22.0	17.0	5.2	12	15.1	5	17.8
Fairchild Industries	5	22.1	6.1	0.4	7	16.5	6.5	2.7	1	24.3	1	28.4
Boeing	6	22.1	12.4	0.1	2	18.3	8.9	3.2	6	17.8	4	23.8
Lear Siegler	7	22.1	15.2	0.3	9	14.8	12.1	4.5	16	12.3	7	16.0
Morton Thiokol	8	20.6	16.3	0.2	8	15.6	15.7	5.2	14	12.4	2	26.9
Pneumo	9	20.4	27.2	0.7	17	12.2	14.1	2.7	11	15.3	6	16.9
Wyman-Gordon	10	20.0	14.4	0.1	6	16.6	12.2	10.5	15	12.4	9	15.2
Sundstrand	11	19.4	9.3	0.2	13	13.6	7.7	5.0	19	9.7	11	13.5
General Dynamics	12	19.3	23.0	0.0	12	14.5	17.4	3.8	9	16.3	3	25.5
Sanders Associates	13	18.7	16.4	0.0	4	17.3	14.4	6.6	8	17.4		D–P
E-Systems	14	18.7	25.6	0.1	3	17.6	24.7	6.4	10	15.4	14	12.6
Rockwell Intl	15	18.5	18.8	0.1	11	14.6	15.9	4.8	25	6.4	8	15.6
Martin Marietta	16	17.9	22.3	1.4	19	11.4	6.4	2.8	5	17.8	13	12.7
Rohr Industries	17	16.5	21.7	0.4	21	10.8	15.0	4.2	24	6.6		D–P
United Technologies	18	16.3	14.7	0.3	18	12.1	11.0	3.4	2	21.1	16	8.9
Gates Learjet	19	15.0	0.2	0.2	14	12.9	1.1	0.0	7	17.4	18	6.5
Northrop	20	14.3	14.8	0.0	15	12.9	13.4	2.4	18	10.5	19	3.4
FMC	21	12.8	12.1	0.3	22	9.3	8.6	4.6	23	7.9	17	7.1
McDonnell Douglas	22	12.6	13.5	0.1	16	12.5	13.3	3.2	13	14.2	15	10.4
Sperry	23	10.3	6.1	0.3	25	8.4	5.4	2.9	22	8.4	20	2.0
Textron	24	10.2	6.7	0.2	23	8.9	6.4	2.9	27	3.8	21	–1.7
Cessna Aircraft	25	10.0	def	0.1	24	8.8	def	def	21	9.4	22	–2.4
Grumman	26	9.6	18.2	0.4	26	8.3	11.9	3.4	26	5.9	23	–5.7
Bangor Punta	27	6.8	def	0.6	28	5.1	def	def	17	11.7	12	13.5
Genl Tire & Rubber	28	6.4	6.0	0.2	27	5.5	5.5	2.8	29	2.0	24	–7.8
Singer	29	def	0.1	0.7	29	1.7	3.0	0.2	28	2.7	26	D–D
Gulfstream Aerospace		**	67.5	0.6		**	30.8	8.3		**		**
Industry medians		18.5	14.8	0.2		12.9	11.5	3.3		12.4		12.7
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
D–D: deficit to deficit. D–P: deficit to profit; not ranked. def: deficit. **Not available; not ranked.



the flashier F-16 by the U.S. government. After all, every F-16 it helps sell recovers for the government part of the money it paid General Dynamics to develop the plane. But every F-20 it helps to sell only adds to Northrop's bottom line and Chairman Thomas V. Jones' bonus. The result is that, after years of sales efforts and more than a year of flight demonstrations, Northrop has yet to garner an order for the F-20. Despite strenuous denials by the company, Northrop may have to abandon its $600 million investment in the F-20. The investment has been charged off as incurred, so ending the program won't mean massive write-offs. It will, however, somewhat blight the next few years.

The commercial aerospace picture still looks gloomy domestically. It takes healthy airlines to support a commercial aircraft business, and most airlines are anything but healthy at the moment *(see p. 139).* Still, with traffic building up a little, so is the order rate. In the highly competitive medium-range market, McDonnell Douglas got orders for 34 150-seat MD-80 jets in the first three quarters of 1983, vs. 7 in 1982. Whether it can match the 77 planes ordered in 1982's fourth quarter won't be known for a while.

McDonnell Douglas has yet to make a cumulative profit in commercial aircraft after more than 17 years in the business, but that doesn't keep Sandy McDonnell from hoping. "Sooner or later, airline financial performance will emerge from the effects of deregulation and the recession," he says optimistically. He obviously doesn't think that's going to be any time soon, however. MDC just canceled development on two new planes: the MD-90 and MD-100. So for the foreseeable future, they have only the MD-80 in the commercial aircraft market. In the meantime, MDC has apparently decided to concentrate on building its promising computer business via the proposed $400 million acquisition of Tymshare, an information and telecommunications company.

Boeing, with orders for 117 planes in the first three quarters, topped its total for all of 1982. But it remains very cautious about the significance of the pickup in orders. One reason is that almost 70% of those orders came from foreign airlines, which shows that domestic airlines have yet to turn the corner. Boeing's drawing boards are not crowded, either. Only stretched variants of the 737 and the 767 are under development.

If 1983 was a boom year for the defense business and only modestly encouraging for commercial aircraft, it was an unmitigated disaster for business and civil aircraft. Cessna has been in a two-year tailspin, tumbling to a $19 million loss, the first in its history, versus a profit of over $60 million as recently as 1981. The rest of the companies in civil aviation are doing no better, although Piper and Beech, as divisions of larger companies, are somewhat sheltered and Gates Learjet was bailed out by a large Air Force lease order in 1983.

For most defense contractors the question of the hour is whether further increases in defense spending are likely. It was a struggle to get an inflation-adjusted 3% real increase in funding for fiscal year 1984, despite President Reagan's demands for a 10% hike. And fiscal 1985 could be even more of a struggle. Congress, eyeing the 1984 election, is increasingly restive about raising the defense budget at the expense of social programs. According to Wolfgang Demisch, First Boston's respected aerospace analyst, Defense Secretary Caspar Weinberger reportedly plans to ask for a phenomenal increase of $53 billion, or 21%, in the fiscal year 1985 defense budget, to $310 billion. His chances of getting it, however, are virtually nil. "A real growth of 5% will be hard to accomplish," says General Dynamics' David Lewis.

In 1984 the fight to limit the growth in the defense budget is likely to center on the Navy. But defense contractors aren't really too worried about it. "The Navy program is so far advanced, there is no way you can possibly turn it off," says Todd Shipyard's Gilbride. "The debate will go on, but the Navy will get its 600-ship fleet." For 1984 and 1985, anyway, order books are fat and all's right with the world for most companies.

How many other industries can say as much? ■

More bang for the buck

If the Pentagon were a corporation, Deputy Secretary of Defense Paul Thayer would be its chief operating officer. He comes well equipped for the job. A one-time Navy fighter ace and test pilot for Vought Corp., Thayer became chief executive of its corporate parent, LTV, in 1970 and pulled it back from the brink of bankruptcy. He joined the Department of Defense last January and has been vociferous about the need for better management of the defense budget. Here, notes from a recent conversation with Thayer on some important concerns.

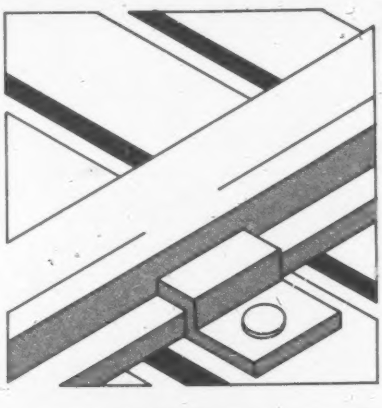
You have said procurement costs could be reduced from 10% to 30% if equipment were made right the first time. That's quite an indictment of defense contractors.

Thayer: There is certainly room for improvement there. But it's not always the fault of the defense contractor. I think there's a lot of room for improvement in the Pentagon and the acquisition process, too. It's also the DOD that keeps changing its mind. We must define what we want well enough so that there is little room for misunderstanding in the design, and then stick with it. You don't increase cost effectiveness when you jack a program around from year to year by increasing and decreasing its production rate because of budget restrictions. Also, [we must] keep changes down to an absolute minimum, which means having them approved at a high enough level so that there is a distinct control over changes that add to cost.

What else can be done?

Thayer: A lot of the restrictions that prevent the Department of Defense from saving money result from congressional interference. We need to close bases, but Congress won't let us. Now, we should certainly depend on Congress to force us to articulate the threat and what we think we need to do to respond to that threat. But when it comes down to nickel-and-diming programs and just arbitrarily chopping here and there, that's no way to run defense procurement. It louses up some very good programs. I don't think they should tell you: "You can't have $2 billion in order to make this program come true. We'll give you half of that, but go ahead and make it come true anyway." Or force us into taking programs that we've not even asked for. Or force us to take money from one program and put it in another.—S.N.C.

In this industry, at least, deregulation has been a real blessing. You will see it in the numbers this year, and, most probably, in the years that follow.



Railroads

By James Cook

As the newly deregulated $27 billion railroad industry emerged last year from the worst recession since the Thirties, the important thing was that the industry overall was still making money. Even Conrail, repository for most of the bankrupt railroads in the East, was running a profit. Only Illinois Central Gulf showed an operating loss.

4108 4108
NW
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Southern and Norfolk & Western crews celebrate merger day at Norfolk, Va.
One good merger deserves another. But how far should the industry go?

The Staggers Act effectively deregulated the industry three years ago, and in 1983 the effect of that emancipation finally began to make itself felt. First-half ton-miles were off 3.3%, but as the recovery gathered steam in the third quarter, weekly ton-miles began rising by 6%, 8%, 10% and more. Aided by an accounting change wherein track improvements are depreciated rather than expensed, the industry's inherent leverage began producing results—a 37% third-quarter earnings gain for Norfolk Southern, 55% for Burlington Northern, and a $2.5 million loss converted to a $10 million profit for Chicago & North Western.

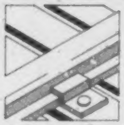
Coupled with the fuel cost advantage the energy crisis had given the railroads, deregulation seemed finally to have arrested the long-term decline in the industry's market share. Whether such gains could be sustained, much less enlarged, remains an open question. But for the first time in a half-century the opportunity at least is there.

The consequence of deregulation, however, was to encourage every railroad in the business to become more self-contained. Because most of the costs of rail transport lie in picking up and delivering traffic, railroads have always tried to get as long a haul as possible, so as to generate the maximum possible revenue to offset those costs. To be sure that customers had the option wherever possible of considering alternative routes, the Interstate Commerce Commission used to require the railroads to set joint rates with connecting roads. But not anymore. "Deregulation has got rid of the antitrust immunity, and that makes it difficult to talk to other railroads," says Norfolk Southern's Chairman Robert B. Claytor. "It's a lot easier if you've got your own system and don't have to talk to anybody." And so the rules of the game have changed, and railroads across the country have begun closing their gateways—the interchange points with connecting lines. "A closed gateway," explain's Union Pacific's boss, William S. Cook, "does not entail a physical closing of an interchange point, but the refusal to post a tariff [a rate] on a specific commodity at that interchange, which technically closes that routing to competitive participation."

The first sign of what was to come was foreshadowed in 1980 when Chessie Systems and Seaboard Coastline merged to form the CSX system. CSX blanketed much of the area served by the Southern and Norfolk & Western systems. Where Chessie and Seaboard used to maintain joint routes with Southern and N&W, CSX could often offer single-system service between those same points. So it no longer needed Southern and N&W.

In response, Southern and N&W felt they had no choice but to merge themselves. So 18 months ago they became the Norfolk Southern system. "Each railroad," says Claytor, "has to serve as many points as it can so it can compete."

The pressure did not come from CSX alone. Conrail's predecessors had complained for years about how unfairly revenues were divided with its connections in the West and South. So when deregulation took place, Conrail began closing gateways and raising switching charges. The result was that piggyback traffic, which once moved out of Chicago for New York, for instance, could no longer move over the Norfolk & Western to



Buffalo and then to New York by way of Conrail's Lehigh Valley affiliate. Henceforward, it would go Conrail all the way. "Conrail will not work with you if they can make more handling it on their system," says Claytor. "That's understandable, but it's a consequence of deregulation." Another consequence, of course, is to reduce the shipper's freedom of choice in routing. Often, he now goes all the way, or not at all.

Naturally, competitors retaliated where they could. "Where our competitors have initiated such activity," says Santa Fe's recently retired chairman, John Reed, "we have reciprocated and taken other steps to protect our interests."

In the West, when the Union Pacific sucked the Missouri Pacific and Western Pacific into its craw, it created tremendous competitive pressures for Southern Pacific. SP claimed that UP was planning to divert over $90 million a year in westbound traffic onto its newly acquired Western Pacific lines between Ogden, Utah and San Francisco. Santa Fe could conceivably have gone it alone, but not Southern Pacific, and once Santa Fe threatened to work out the first transcontinental rail merger by acquiring Conrail, Southern Pacific bowed to the inevitable and a few weeks later agreed to merge with Santa Fe. The $1 billion in cash SP will get from selling Ticor and SP Telecommunications (which gives SP the highest ROE in the business) would enable the merged company to develop its considerable natural resources and real estate potential.

So thus far deregulation has stepped up the creation of a half-dozen overlapping balanced, regional systems. All six have produced considerable uniformity of results, though the inclusion of capital gains and other nonrecurring gains in income, as in the case of Southern Pacific, obscures this on the Forbes industry Yardsticks below. How long this balance will be maintained is far from clear. The Department of Transportation is eager to sell Conrail to somebody to get it off the government's back. But so far only Conrail's labor unions have made a firm offer, and the DOT would like a sponsor with somewhat more substantial financial resources: Santa Fe, Norfolk Southern, IU International—all of whom have been reported to be interested.

With its plant shrunken and its labor force reduced, Conrail's attractions are considerable. Even at its new, smaller scale, it produces close to 15% of all rail traffic generated in the U.S. With enough government pressure behind the sale, some railroad may yet leap to the bait, and the race to create countervailing transcontinental systems may begin.

Whether the U.S. really needs transcontinental railroads is another question. The amount of transcontinental traffic is minimal, though not so minimal as to discourage an ambitious CEO from winning a place in history by establishing one.

Regional systems are another matter. More than one railroad executive has seen the attraction of regional monopolies of the sort Conrail represents in the Northeast and Burlington Northern in the Northwest. Even so, to commit the entire rail transport of a region to a single system, as the Penn Central merger did, may pose risks for any regional economy greater than the public interest would find acceptable.

Deregulation, of course, did more than heighten the competition between the emerging single-line systems. It also increased enormously the industry's ability to compete and cooperate with the trucking industry. For the first time railroads are able to set piggyback rates as they please and move into and out of markets at will. "Rail deregulation," as the Burlington Northern sees it, "allows us to offer contract rates and other services that make piggyback more attractive to truck lines. This intermodal cooperation combines the flexibility of trucks with the inherent efficiency of the railroad and lowers shipping costs to customers."

What makes piggyback so exciting is that it has been opening up whole new markets to the railroads. In the last half-century, the railroads have come to depend primarily on bulk commodities like coal, grain and chemicals for their living. Piggyback puts the industry back in touch with the dynamic growth segments of the U.S. economy, from high-technology products to perishables.

Piggyback traffic has been growing briskly for some time, of course. It didn't even falter during the recession. But the gloves are now off, and railroads like Santa Fe, which already

Railroads

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Chic & North Western	1	16.8%	5.2%	1.2	7	6.5%	4.7%	1.1%	5	9.9%	6	9.6%
Norfolk Southern	2	14.0	8.5	0.3	1	8.7	5.8	9.5	8	8.3	3	13.6
Union Pacific	3	13.4	9.4	0.5	2	8.6	5.5	4.8	1	21.6	4	13.5
Burlington Northern	4	11.0	13.0	0.4	3	7.9	9.3	8.6	3	16.5	1	20.2
Southern Pacific	5	10.5	22.7	0.5	5	7.0	13.1	19.7	7	8.7	2	16.2
Santa Fe Industries	6	10.4	7.5	0.2	4	7.1	5.1	5.9	4	13.0	7	9.2
CSX	7	9.6	4.1	0.5	6	6.6†	4.0	2.8	6	9.6	5	10.2
IC Industries	8	8.3	4.6	0.8	8	5.5	4.2	1.6	2	16.5	8	3.1
Industry medians		10.8	8.0	0.5		7.1	5.3	5.4		11.5		11.8
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
†Four-year average.

gets over 25% of its revenues from piggyback, hope for considerable growth over the years ahead. Thanks to piggyback, in Florida and California CSX, SP and Santa Fe once again captured an important chunk of the fresh fruit and vegetables traffic they had abandoned to the truckers a quarter-century before.

Most railroads are not likely to move into trucking as such on any large scale. It's too costly, too difficult and perhaps too incompatible with the railroads' volume-approach to the business. But the industry may well move into other forms of transportation. Both Burlington Northern and CSX (for quite different reasons) have moved to acquire natural gas pipelines, BN with El Paso and CSX with Texas Gas, for example. More to the point, CSX has also asked the ICC for permission to get into water transport as well, having acquired American Commercial Lines with Texas Gas. Most promising of all, CSX has worked out a deal to lease up to 4,000 miles of its right-of-way to MCI Communications for a high-speed fiber-optic data and voice communications line in exchange for $36 million over a period of years and free, if limited, use of the MCI system.

Most of the industry remains, inevitably, very much a captive of its economic geography. If you serve the South or West where the local economy has been booming, as the Union Pacific and Norfolk Southern do, you can hardly fail to outperform the Milwaukee or Conrail, which serve the industrially stagnant East or Midwest. If you have coal or grain in your territory, as Santa Fe and Burlington Northern have, you are bound to outperform a line like the Southern Pacific, which never had much of either, never mind the Illinois Central Gulf, which faces barge competition the length of its mid-America route.

So it's even more surprising that, by and large, the railroads have been so late in diversifying and then have done it so fitfully. In the West, where the Santa Fe, Southern Pacific, Union Pacific and Burlington Northern had their land grant heritage from the 19th century, the railroads have been slow to capitalize on them. Nobody has gone farther and faster than the Union Pacific, which, since the acquisition of Champlin Petroleum in 1970, is more oil company than railroad. (The oil component, in fact, largely explains why both Union Pacific and Santa Fe have grown much faster than the industry in recent years.) But Santa Fe and Burlington have worked hard to catch up, Santa Fe with its holdings in coal, oil, lumber and uranium, Burlington in coal, oil, timber and, now, natural gas, with the acquisition of El Paso.

Southern Pacific diversified more ambitiously. As the profitability of its rail operation declined, it acquired a title insurance company and had a stunning success in building a telecommunications business. But it lacked the capital to nurture both and in the end sold them.

The Chicago & North Western, meanwhile, conglomerated under the name of Northwest Industries, which then sold the railroad to its employees—who have since taken it public. Under Jim Wolfe, North Western has worked wonders in building a new life out of the mistakes of others, ruthlessly contracting its system to meet the level of its traffic. It has also fallen heir to both the bankrupt Milwaukee and Rock Island systems—and has acquired parts of one and hopes to acquire what remains of the other—and has bulldozed its way into the Wyoming coal fields in joint ventures with UP and BN. Within five years UP-NW could be hauling as much as 25 million tons a year, much of which will come out of Burlington's hide.

In sum, as North Western's experience indicates and as roads like Norfolk Southern and Santa Fe have demonstrated long since, transportation can be a pretty good business to be in. And for the first time in a long while, it's likely to get even better. ■

Acid rain can be good for you

What's good for heavy industry is generally good for the railroads. Oddly enough, what's bad for it can sometimes be good for the railroads as well. Take the matter of acid rain.

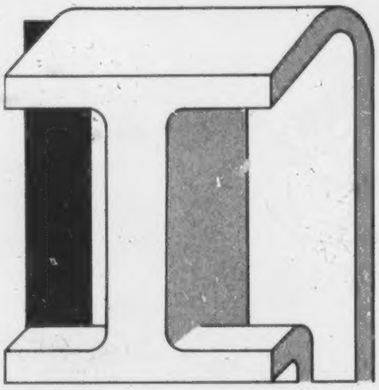
Acid rain is produced, most probably, by sulfur dioxide emissions mainly from utility power plants, industrial boilers and other stationary power plants in the industrial Midwest. Congress is now wrestling with how best to lessen the amount of it. The coal industry is of two minds. On the one hand are those who opt for power plant scrubbers, which would benefit high-sulfur-coal producers in Ohio and Illinois like Peabody and Consolidation. On the other are those preferring to set air quality standards and let companies meet those standards in any way they choose—including switching from high-sulfur to low-sulfur coal, which would benefit low-sulfur-coal producers in West Virginia and the Far West like Pittston, Westmoreland and Nerco.

The latter solution—cheaper, more economic and conceivably even more effective—ought to prevail. If it does, nobody stands to benefit more than the coal-carrying railroads—the Union Pacific and Burlington Northern in the West, CSX and Norfolk Southern in the East. According to Peabody Coal, at least 170 million tons of high-sulfur-coal production is up for grabs. Low-sulfur coal is generally farther from the point of consumption than high-sulfur coal is. Indeed, some of the utility plants that might switch to low-sulfur coal are in fact built at the mouths of the high-sulfur coal mines that support them. So the railroads would get a lot of business, particularly with coal from Colorado, Utah and Wyoming.

Since the heat content of western coal is only a half to two-thirds that of the high-sulfur eastern coal it would replace, the utilities would need substantially more tonnage to do the job. Small wonder, then, that western roads like the Burlington Northern and Union Pacific, both of which are also in the coal business, have jumped on the bandwagon to support legislation permitting free choice. The eastern carriers—CSX and especially Norfolk Southern, with customers on both sides of the argument—have preferred to remain neutral. After all, why alienate their high-sulfur coal mine customers prematurely?

But there's no question which side the eastern roads' bread is buttered on. According to an independent study made for the Alliance for Clean Energy, a joint coal producer/coal railroad group, the low-sulfur option would require 100 billion additional ton-miles of transportation from the west by 1995, of which 95% would be provided by railroads. And that's no mean increment. In 1982 the railroads' total traffic volume was less than 800 billion ton-miles.—J.C.

Despite improving prospects, the final shakeout is under way in this seriously troubled industry. For 1984 the word will be merger.



Steel

By Kevin McManus

"THIS INDUSTRY is going to have a better year in 1984," says Harry Holiday, chairman of Armco Inc. "All predictions are that tonnages are going to be up somewhat."

"It's conceivable that we could even operate at capacity in specific product lines," adds Thomas Graham, vice chairman of U.S. Steel.

It has been so long that it hardly seems possible, but, yes, recovery actually is at hand in the steel business. The first to feel it: producers of sheet steel for Detroit like National, Inland and LTV, although it can't yet be seen in the latest 12-month figures on the Forbes Yardsticks. National Steel, especially, has benefited, since its largest sheet mill is right in Detroit. Makers of steel for appliances and electrical machinery also have begun to see increased orders. Heavier products—structural shapes, rails and tubes—will revive as soon as there's a significant pickup in capital spending, already under way in some industries. That will help producers like U.S. Steel, Armco and Bethlehem. By the second half of this year all seven of the country's major steelmakers will probably be in the black. U.S. Steel is even predicting four quarters of operating profits, based on a modest uptrend in capital spending in 1984.

The trouble is, the industry has been down for so long that it will take at least a decade of vastly improved prospects to put it back on its feet. What small profit the big steel producers do make in 1984—perhaps

Taking it to the courts

Antidumping suits are always messy, but when they involve Third World exporters hard pressed to pay their bank loans, they are doubly difficult. If the U.S. government comes to the aid of the beleaguered American steel industry by imposing import quotas, it risks pushing those Third World countries closer toward default.

Consider Bethlehem Steel's threatened suit, which would seek to restrict the total amount of steel foreigners can legally export to the U.S. In 1983 steel imports accounted for some 22% of U.S. consumption, or about 20 million tons, out of the roughly 85 million tons sold in the U.S. Bethlehem and other big steel companies backing the suit would like to see that import tonnage cut back to about 15%. That, of course, might trigger reprisals from Japan and Europe, which are already limiting exports here.

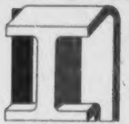
On top of that, the International Trade Commission, a government agency that deals with such matters, still has to wrestle with the Gilmore Steel case. Gilmore, a small Portland, Ore. plate producer, has sued exporters from West Germany, Belgium and Korea for dumping plate products in its West Coast market. The case, which so far has advanced in Gilmore's favor, could be as sticky as the U.S. Steel and Bethlehem cases, because a ruling in Gilmore's favor could wreck the 1982 accord between the EEC and U.S. steel producers. And that could cause the same headaches that the U.S. government would seek to avoid by throwing out the Bethlehem and U.S. Steel cases.

Thomas Boklund, president of Gilmore, believes the EEC and Japanese accords would not be ruined by a ruling in Gilmore's favor. "I think there's too much to be lost by the Europeans," he says, were they to scotch the existing arrangement. "Our complaint is on one product only, whereas the arrangement covers many products."

Boklund points out that the Gilmore suit was do-or-die for the little company, which was operating at only about 30% of capacity for most of 1983. "But in order to compete and stay in the market," he says, "this is an avenue we have to take, unfortunately."

That sentiment pretty much holds true for the big producers in their legal actions against foreigners. Like Gilmore, they feel they are being driven out of business by overseas competitors, most of whom are nationally owned. If antidumping suits and steel quotas threaten to disrupt already shaky financial and political connections between the U.S. and its trade partners, well, that's Washington's problem. If the U.S. wants to have a viable steel industry, then, for the moment at least, the foreigners had better be kept out or, at least, largely cut off.

Are the rulemakers in Washington receptive to this reasoning? "I think they understand the problem," says Harry Holiday, chairman of Armco. "But, most probably, we still have to file suits in order to bring some action."—K.M.



$1.5 billion, according to Oppenheimer Vice President John C. Tumazos—will certainly not be enough to finance the modernizing effort that steelmen say is necessary to make them globally competitive. Nor will it be enough to attract economic financing on Wall Street. About all one can say is that after two years of staggering losses and chopping of plant and personnel, any profit at all is a step in the right direction.

None of this applies, of course, to the recycling arm of the industry, the so-called minimill operators such as Chaparral and Nucor. Those companies have stayed quite healthy because of lower labor costs (most minis are not unionized); lower transportation costs (because they tend to be situated close to their markets); and, most importantly, far lower capital spending requirements (they melt inexpensive scrap in efficient electric-arc furnaces, for the most part).

The central issue is what's happening to the Big Seven steel producers that make raw steel: U.S. Steel, Inland, LTV, Republic, Armco, National and Bethlehem. To build a brand-new supermill that would be competitive with the best Japanese mills would cost about $2,000 per ton of capacity (vs. $250 to $750 per ton for electric-arc minis, depending on the product), estimates Richard Smith, vice chairman of Bethlehem. "And the current return on the steel business is such that the investment couldn't be justified." It certainly isn't justified, and has not been for years. Look at the big steelmakers' return on capital over the past five years: U.S. Steel, 3.8%; Armco, 0.1%; Republic, 0.0%, and so on.

Because the industry's costs are simply not competitive internationally, even with more demand, the steelmakers face a host of other problems:

- Imported tonnage, which accounted for 22% of total steel sales in 1982. While most of it comes from Japan and Europe, a growing amount also comes from Third World producers like Brazil, South Korea, Mexico, Taiwan—even Trinidad and Tobago. After European and Japanese producers agreed in 1982 to limit steel exports to the U.S., developing countries rushed to take up the slack. The problem is worsening. Troubled Wheeling-Pittsburgh threatens to import semifinished steel from Brazil, as U.S. Steel wants to do with British Steel. No surprise, then, that Bethlehem Steel planned a major trade suit before the International Trade Commission, seeking to establish stiff U.S. import quotas *(see box, p. 154).*
- Excess capacity. Despite wholesale downsizing by the industry, domestic steelmakers still possess the plant, equipment and manpower to

Steel

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Worthington Inds	1	27.6%	17.2%	0.6	2	17.9%	11.6%	4.5%	1	25.0%	1	20.7%
Nucor	2	23.9	10.5	0.2	1	18.6	9.4	4.9	2	20.1	2	19.6
Northwest Industries	3	21.3	1.7	0.5	4	12.5	2.3	0.6	9	9.4	3	13.8
Carpenter Technology	4	15.3	6.6	0.2	3	14.0	5.2	4.6	6	10.2	5	8.4
Commercial Metals	5	14.5	7.1	0.2	7	11.6	6.6	0.9	3	14.6	4	8.8
Earle M Jorgensen	6	13.8	3.5	0.2	6	12.1	3.7	2.6	14	5.8	8	5.0
Central Steel & Wire	7	12.5	10.3	0.0	5	12.3	10.1	3.4	17	4.5	7	6.2
LTV	8	9.8†	def	1.3	15	5.0†	def	def	5	11.9‡	6	7.1‡
Colt Industries	9	9.6	17.6	0.5	8	7.5	14.6	5.6	11	7.1	10	–9.9
Athlone Industries	10	8.2	def	1.3	9	6.9	1.4	def	26	2.1	11	–11.4
Interlake	11	7.2	3.6	0.4	10	6.2	4.0	1.5	15	5.3	9	–4.8
Crane	12	7.1	def	0.6	13	5.5	def	def	22	3.7	13	–13.1
Copperweld	13	6.6	def	0.5	11	5.7	def	def	13	6.0	12	–11.9
Northwestern Steel	14	5.1	def	0.0	14	5.2	def	def	21	4.0	14	–14.1
Cyclops	15	3.2	def	0.4	16	3.8	def	def	10	8.7	15	–15.0
Hanna Mining	16	1.8	def	0.2	19	2.1	def	def	28	–4.2	17	–31.1
Lukens	17	1.6	def	0.6	18	3.0	def	def	12	6.2	16	–29.0
National-Standard	18	1.3	def	0.2	20	1.6	def	def	23	3.2	19	–34.0
United States Steel	19	1.1	def	1.0	16	3.8	def	def	7	10.1	18	–33.6
Inland Steel	20	def	def	0.6	21	1.1	def	def	16	4.9	20	P–D
Republic Steel	21	def	def	0.5	24	0.0	def	def	18	4.3	20	P–D
Armco	22	def	def	0.4	23	0.1	def	def	8	9.5	20	P–D
Kaiser Steel	23	def	def	0.9	25	def	0.8	def	19	4.1	20	P–D
Wheeling-Pitts Steel	24	def	def	1.1	22	1.1	def	def	27	0.1	20	P–D
National Intergroup	25	def	def	0.7	26	def	def	def	20	4.0	20	P–D
Keystone Consolidated	26	def	def	0.6	27	def	def	def	25	2.6	20	P–D
NVF	27	def	def	3.2	12	5.6	def	def	4	12.2	20	P–D
Bethlehem Steel	28	def	def	1.0	28	def	def	def	24	2.7	20	P–D
Industry medians		4.2	def	0.5		5.1	def	def		5.6		–14.6
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
†Four-year average. ‡Four-year growth. P–D: profit to deficit. def: deficit.

produce far more pipe, plate, sheet, etc., than can possibly be consumed domestically or sold overseas. Total U.S. industry capacity is something like 150 million tons a year—20 million too much, by some estimates. So the downsizing continues. Closed in October: 75% of Bethlehem's 81-year-old, 1,696-acre Lackawanna, N.Y. plant, which has been darkening in stages since 1970. To be closed this month is Armco's 42-year-old Houston works, which once turned out plate for Texas oilfield drilling rigs.

- **Outmoded plant.** Most of the U.S. mills that remain open after the shutdowns will need modernizing. The newest U.S. mill is Bethlehem's Burns Harbor, Ind. works, a 20-year-old facility that is only medium-size by international standards.

Brazilian steel wire being unloaded in Houston
Whose problem—domestic steelmakers' or Washington's?

- **Costly labor.** American steelworkers are still paid more than their foreign counterparts, by a margin of 50% to 100%. Labor cost accounts for about 40% of the selling price of U.S.-made steel, vs. about 18% for that made in Japan.

All of which is not to say that domestic steelmakers don't deserve a lot of credit for facing up to their troubles. "The companies have done everything in their power to adapt," says Tumazos. But one measure of how much remains to be done is the fact that less than 30% of American steel is continuously cast, vs. about 90% of Japanese steel. The continuous casting process turns out a single strand of molten metal for simultaneous rolling, thereby eliminating ingot casting, reheating and trimming. Continuous casters are running now in Bethlehem's Burns Harbor facilities and will come on line at Sparrows Point, Md. in 1986. U.S. Steel, which has casters installed at Fairfield, Ala., Lorain, Ohio and three other facilities, says it will be casting 30% of its steel this way by 1986.

U.S. Steel's efforts to make a deal to import 1 million tons of low-cost slab annually from British Steel's 20-year-old Ravenscraig mill in Scotland (and finish the slabs at its Fairless works) is tacit recognition of the fact that this is too little, too late.

That venture is opposed by unions in both countries and could be blocked by either U.S. or British regulators. But even if the U.S. Steel deal should fall through, some slab importation arrangements are likely to be worked out, perhaps with less fanfare, with countries active in the slab export business like Brazil, Sweden, Canada and Korea.

Other U.S. steel producers are attempting somewhat less defeatist solutions. Perhaps the most notable example is the proposed merger of LTV and Republic, which would create the second-largest steel firm in the U.S. and permit both integration and downsizing. If Washington okays that deal—most steelmen believe it will—others may follow. "I think we'll see a merger or two beyond LTV-Republic, and probably sooner rather than later," says Ralph Thompson, a Commerce Department steel analyst. "Wheeling-Pittsburgh is clearly a candidate for something."

Republic implicitly is agreeing with the view of U.S. Steel Chairman David Roderick, who believes that by the end of this decade only three to five fully integrated steel companies will exist, producing 60% to 65% of the nation's steel. Thomas Graham, Big Steel's second-in-command, elaborates: "I expect we'll see merger activity and we'll see financial failures. We'll see a reshaped industry that is created by a survival mode like that." ■

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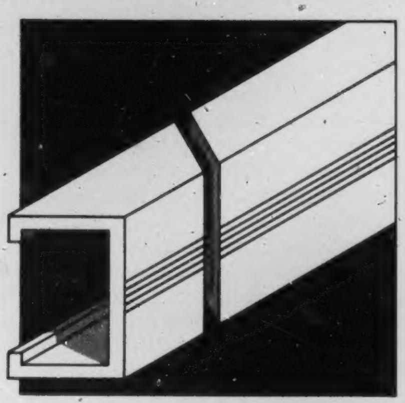
Fundamental changes in the world's economy are causing the recovery to pass by most of this most basic of basic industries.



Nonferrous metals

By James Cook

SOMETIMES MANAGEMENT isn't everything. The $30 billion U.S. nonferrous metals industry is being shaken to its roots these days by the steadily declining importance of metals in the world's total economic activity and by the increasing role that governments are coming to play in the world's base metals business.

The effect of those two forces on metal prices has been devastating. In 1983 copper shot up from 69 to 83 cents a pound, and then dropped back to 69 again, the lowest level in real terms since the Thirties. Lead hovered around 20 cents a pound and rose to 26 cents in the fall, vs. over 60 cents in 1979. Molybdenum at $4 and nickel at $2 were something like 50% below their 1980 highs, with no upturn in sight. Silver, up from $4.88 to nearly $15 an ounce in early 1983, was back to $9 by late fall. And gold had dropped from a 1980 high of $851 an ounce to $400 by late fall.

Thanks to auto and housing demand, only aluminum and zinc were out of the woods, with zinc at 49 cents a pound, just a shade below its alltime high, and aluminum at a heavily discounted 81, the highest producer-price level in history.

Why was the nonferrous metals business in general being passed over in the recovery? At least in part because of fundamental changes that are taking place in the economy. For at least the last 30 years the U.S. GNP has become increasingly less materials-intensive. Between 1950 and 1981 the U.S. real GNP tripled, but steel consumption rose less than 50%, copper less than 30%, lead not at all and zinc actually declined. Only aluminum—the industry's high-volume growth business—succeeded in outpacing the GNP by a wide margin. And now even aluminum is losing ground as its customers work to get more from less, reducing the aluminum content of beverage cans, for example, by a prospective 17% over the next two years.

The energy crisis speeded up these changes, devastating one traditional

Nonferrous metals

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Cabot	1	21.3%	9.9%	0.3	2	14.0%	7.5%	4.1%	1	23.3%	1	29.3%
Engelhard	2	19.5	17.0	0.2	1	17.2	13.8	3.2	2	19.3‡	4	14.2‡
Handy & Harman	3	16.9	6.8	0.6	3	11.9	5.9	1.6	5	9.6	6	6.8
Newmont Mining	4	14.6	4.9	0.1	4	9.9	3.7	9.8	10	6.8	2	17.2
Alcan Aluminium	5	13.5	0.7	0.5	5	9.5	1.9	0.4	4	11.3	5	12.8
Alcoa	6	10.6	def	0.5	7	8.2	1.8	0.0	6	9.6	7	6.4
ASARCO	7	9.4	2.2	0.5	6	8.4	3.7	2.7	9	6.8	3	15.1
Kaiser Alum & Chem	8	6.0	def	0.6	9	4.9	def	def	7	8.9	9	–10.8
Reynolds Metals	9	5.3	def	0.6	10	4.1	def	def	8	8.7	8	–9.6
AMAX	10	4.4	def	0.6	8	5.5	def	def	3	15.8	11	–14.4
Phelps Dodge	11	2.9	def	0.6	11	def	2.9	def	11	5.2	10	–11.3
Inco	12	def	def	0.6	12	def	def	def	13	0.6	12	P–D
Revere Copper	13	def	def	6.2	13	def	def	def	12	4.9	12	P–D
Industry medians		**9.4**	**def**	**0.6**		**8.2**	**1.8**	**0.4**		**8.9**		**5.4**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. def: deficit.

metals market after another virtually overnight. Downsize the energy-sensitive segments of the economy, including its automotive component, as the U.S. set about to do in the Seventies, and you inevitably also downsize all the industries that depend on it. The metals-producing industries were affected most of all, except aluminum, whose light weight gave it an edge over most other materials.

Add to basic changes like this the worst manufacturing recession in a half-century, and you get the devastation so vividly reflected in this year's Forbes nonferrous metals industry Yardsticks: Revere Copper in bankruptcy, no fewer than 7 out of 13 companies in the red. The only companies able to keep their heads above water were Alcan, with the world's lowest-cost aluminum operations; Cabot, with a countervailing stake in oil, gas and chemicals; and 4 companies with a commitment in some way to precious metals, either as miners (Asarco, Newmont) or as processors (Engelhard, Handy & Harman).

The more specialized metals—nickel and molybdenum—were no better off than the base metals. Gone are the days when steel was the hallmark of industrial potency and specialized steels the big growth area, when the metals used primarily in making steel alloys that were harder, lighter or less rust-prone did impressively well, thereby enriching the world's two leading producers, Inco and Amax, who compounded their advantage by exploiting a near-monopoly on the world's economic reserves of their metals. Today both industries have more capacity available than they are likely to absorb in a decade, while the steel industry seems to be contracting worldwide.

Faced with fast-shrinking markets, Amax sought to offset its inordinate dependence on molybdenum by diversifying all over the lot. Trouble was, it ventured into adjacent businesses, often materials that proved to be every bit as vulnerable: nickel, copper, lead, zinc, fertilizers. True, it also went into aluminum, coal, iron ore, oil and gas, which were not as vulnerable as molybdenum. But Amax was not sufficiently contracyclical to offset the others. Inco's by-product copper, recovered in the process of mining nickel, made it one of the world's largest copper producers. But this was no protection. Copper was nearly as hard hit as nickel, and Inco's attempt to diversify with Electric Storage Battery was a $254 million disaster.

But the shifting patterns in the world's consumption of materials are only the half of it. The other half is increasingly widespread government ownership of the metals industries, a stake so large in steel, copper and aluminum that the balance of economic power is rapidly shifting away from the private sector.

It's a phenomenon scarcely limited to metals, of course. You could say the same of petroleum and petrochemicals, or airlines or telecommunications. But nowhere has the change been more dramatic and more disastrous than in copper. Over the past decade or so, all of the key Third World copper producers—Chile, Zambia and Zaire—have nationalized their copper production. Today something like 55% of the world's output comes from government corporations, vs. 33% a decade ago.

These new Copper Kings, as Forbes called such government enterprises a decade ago, are aloof from the profit disciplines that in the past have shaped the industry's development. What governs their conduct these days are such concerns as employment and foreign exchange and the

Games governments play

When a private company can't meet its financial obligations, it generally goes bankrupt. When a Third World government enterprise finds itself in the same position? It goes to the International Monetary Fund.

Don't laugh. That's just what's facing the copper industry these days—bankruptcies for the private companies, IMF backing for their government competitors.

In 1982, for instance, when copper consumption fell sharply worldwide, U.S. producers cut production back from 1.5 to 1.1 million tons in an effort to bring supply and demand into balance. Chile, however, increased production from 1 million to 1.2 million tons. It needed to keep its copper miners working, and it needed the foreign exchange copper would bring to service its $20 billion in external debt.

So who cared if copper prices went to hell in a handbasket? There was always the IMF to turn to. Its compensatory financing facility provides loans as balance of payments supplements when there is a temporary shortfall in a developing country's export revenues.

Chile, with its low costs, may have made money selling copper at 69 cents a pound, but its high level of production helped depress the price of copper. At such price levels, high-cost producers in Zambia, Zaire, Peru and Papua New Guinea couldn't make money any more than the North American producers could, though they kept on producing anyway. Export earnings for these countries dropped sharply, and the IMF had to come up with a compensatory $586 million for these countries as well. "It doesn't make any sense," says Asarco's Chairman Ralph Hennebach. "The margin between shortage and surplus is so small that if these countries had cut production, copper prices would have risen so much higher that they'd have made more on lower production than they did by producing full out."

Small wonder, then, that the U.S. copper industry is in such chaos these days. U.S. consumption has begun picking up, but U.S. producers aren't supplying the upswing. Instead, low-priced Chilean copper, which normally moves to Europe, is flooding into the U.S.

All things considered, of course, that isn't all bad. In the last economic recovery, copper soared to well over $1 a pound, whereas today, 13 months into the current recovery, copper remains at 69 cents a pound, near its recessionary low. So you could say that U.S. consumers are, in effect, getting an indirect price subsidy both from the Third World producers and from the IMF.

But that subsidy comes at a price, and that price may be the devastation of major parts of the U.S. copper industry. When governments set the economic terms of any industry, over the long haul only governments can reasonably be expected to play the game. So if the current situation continues, it's likely the U.S. government will have to meet fire with fire: become involved in the copper business itself. In the end, if that happens, the low price of copper may not be such a bargain after all.—J.C.

demands of the international lending agencies *(see box, p. 162).* Never mind whether demand is high or low, whether prices are low or high, these government producers keep churning out metal, maintaining employment and foreign exchange. In the process, of course, they depress metals prices and export unemployment.

So the industry's private sector, situated primarily in North America, has attempted to bring supply and demand into balance by curtailing production. In the first half of 1983, for example, U.S. producers cut their output by 16%, to no avail. With the Third World producers running full out, total production worldwide dropped a mere 6%. Result: The private copper industry in the U.S. and Canada is being driven to the wall, not by the economics of production but by the politics of nationalization.

The results are obvious: Most of the major U.S. producers have already been absorbed by the oil or mining conglomerates. The few that are still independent have been forced to close down, temporarily, one mine after another, so that today the U.S.' most efficient copper producer, Phelps Dodge, had no choice but to endure a bitter strike and is being forced to liquidate major chunks of its other assets to stay solvent. "It's our intention," PD's able boss, George Munroe, demurs, "to reinvest our capital in areas where it can be more productive"—small mines, that is, and precious metals.

Asarco, one of the few major independent copper producers still around, would probably have been in similar difficulty except for the fact that it is also the U.S.' largest producer of silver. For part of 1983, silver was booming. "You don't manage for profit," Asarco President Richard de J. Osborne explains. "You manage for cash flow to meet your obligations."

Copper is not alone. Alcoa's new chairman, Charles W. Parry, complains that the private aluminum industry has also been hurt by continuing high levels of production from government-owned smelters in places like Venezuela and Bahrain. By 1985, in fact, Alcoa predicts government smelters will account for 50% of the industry's output, vs. 15% in 1960. Meanwhile, to an even greater extent than the rest of the industry, U.S. producers have had trouble coping with the rising costs of electric power (perhaps a quarter of the final cost of aluminum). That has already rendered more than 15% of U.S. capacity obsolete. U.S. energy costs now average an estimated 20 cents per pound, vs. 13 cents overseas. While U.S. producers—Alcoa most of all—have reduced the amount of power needed to produce a pound of aluminum, the U.S. is playing a losing game.

Chile's massive Chuquicamata mine
Private firms or government games?

Though most of its markets have begun to mature, the aluminum industry still thinks of itself as a dynamic growth business. So the three big U.S. producers are moving to Australia and Brazil, where inside of 10 or 15 years aluminum will probably cost 20% less to produce than in the U.S. So is Alcan, which, thanks to its low-cost hydroelectric power base in Canada, has steadily gained ground on its competitors all during the Seventies and very probably will continue to do so in the rest of the Eighties. Kaiser, meanwhile, despite its failures in diversifying in the past, hopes to develop a counterbalancing half of its revenues in other areas; Reynolds aims at becoming more of a fabricator.

The pattern is clear: America's base-metals producers are steadily losing ground to their foreign and primarily government-owned competition. As a result, the U.S. will almost certainly come to depend more and more on imports for its basic materials. According to Dean Witter First Vice President J. Clarence Morrison, unless the trend is reversed, by 1990 the U.S. will probably be importing 30% of its copper requirements, vs. 15% currently; 36% of its aluminum, vs. 20%; 75% of its zinc, vs. 55%; 60% of its nickel, vs. 45%.

Still, there are some real winners in the business, notably Handy & Harman, Engelhard, Cabot and Newmont Mining. But neither Handy & Harman, Engelhard nor Cabot is in mining. Handy & Harman and Engelhard are precious metals refiners and fabricators, with successful diversifications into specialty metals products and catalysts, respectively, while Cabot more than offsets its specialty metals operation with petroleum, petrochemicals and carbon black.

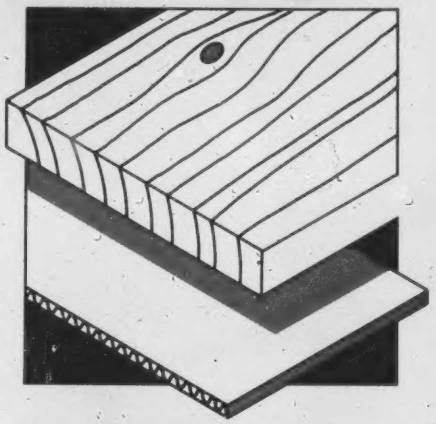
As a mining enterprise, the group's star performer is Newmont Mining. Though it ranks as one of the world's largest copper producers and even increased its stake a year ago by picking up Cities Service' copper properties, Newmont makes its money these days from some strikingly successful ventures into coal, oil and gas and, most spectacularly, gold. Newmont's Carlin mine was a winner when gold was at $35 an ounce. It's a real gold mine with gold at $400 an ounce, never mind at over $850. Newmont's diversification is as varied and unstable as that of anyone else in the mining business, but, given the present needs of the market, it has almost alone been able to meld those instabilities into a profitable combination. No wonder Britain's Consolidated Gold Fields may increase its Newmont investment from 26% to 33%.

What's ahead? Nobody has much doubt that aluminum should score a dazzling comeback in 1984, so much so that some analysts are even predicting a shortage. Ditto zinc and possibly lead, both of which hit a new floor in demand during the recession. Silver and gold still boom and bust on their reputation as storehouses of value. As they are currently out of favor, prices and profits hinge on the level of industrial demand, which is finally beginning to recover from the low levels of 1982. Nickel's and molybdenum's fortunes depend partly on steel's. They had better be better in 1984 than they were in 1983 or the industries may not survive.

Nobody really knows what's ahead for copper. Under normal circumstances rising demand from housing and automotive markets ought to have sent copper prices and profits soaring long before now. But it hasn't. Coppermen now wait for an overdue upsurge in capital spending to do the job. The worse things get, the more mines close, the sharper and more explosive the upswing ought to be. As Asarco's former Chairman Charles Barber points out, "History teaches that a small shortage creates a disproportionate increase in price, and, conversely, a modest surplus creates a disproportionate decrease in price."

So near, and yet so far. ■

Government deficits are likely to depress housing starts and the wood and lumber companies' profits, but prosperity for the papermakers is virtually in the bag.



Forest products

By Lawrence Minard

IF ONLY WASHINGTON doesn't screw things up.... So ran the thinking of forest products company chief executives as 1983 ended. Housing starts, up 70% last year, were back to normal. Wood products, which typically lead the industry out of recession, had already enjoyed a dramatic turnaround. Industrial production, key to such depressed paper products as linerboard, was beginning to pick up. In short, the industry was finally back on course.

Nevertheless, Potlatch Corp. Chairman Richard Madden was glum when he addressed security analysts in October, despite third-quarter results of $10.8 million, which were better than twice 1982's third quarter. Potlatch's immediate prospects, Madden conceded, were "encouraging." But not so longer-term prospects. "Despite all the rhetoric from Washington," he warned, "excessive federal spending and huge budget deficits over the next several years . . . [are] fundamental roadblocks that threaten the current recovery and dampen our enthusiasm about the longer term."

The basis for Madden's fears is obvious. Huge deficits mean upward pressure on interest and mortgage rates, and that's death to housing starts—and the wood companies' profits. The industry hasn't seen a good housing year since 1978, when starts were 2.1 million. By 1982 they had plunged to just over 1 million, the worst level since the 1930s. The Yardsticks show the damage. Potlatch, Georgia-Pacific, Louisiana-Pacific, Boise Cascade, Southwest Forest, Weyerhaeuser—in every case the companies' five-year average equity had trouble keeping even with inflation or fell well short of it. Because 1982's fourth quarter was one of the worst on record, returns for the latest 12 months still lag the five-year averages by quite a margin despite the upturn in housing. Clouding the outlook for some West Coast companies, Southwest Forest, for example, are government timber-cutting contracts signed a few years ago at very high—and today very uneconomic—prices. Should the government force the companies to honor the contracts, wood products' earnings will be adversely affected.

Construction workers nailing Louisiana-Pacific's waferboard
New competition is the sincerest form of flattery.

What worries the forest products industry is how vulnerable demand for housing is to interest rates. When interest rates fell last spring, housing starts picked up smartly, to an annual rate of 1.9 million in August. But then interest rates bounced up again, which immediately knocked starts down to an annualized 1.6 million by November and around 1.7 million for the full year.

The problem, of course, is one of affordability. The "affordability ratio" is that portion of a typical American family's after-tax income devoted to financing a home. The ratio was 22% in 1977, when housing starts stood at 1.9 million units. Last year the ratio was over 30%. Economists at the Federal National Mortgage Association figure the ratio must drop to 25% to sustain housing starts at 1.75 million units. But a 25% ratio, they say, requires conventional mortgages at no more than 11.5%, vs. 14% today.

Even if housing stays at 1.7 million units this year, forest products companies won't be on easy street. Houses have been downsized, and an increasing number of buyers are switching to less expensive multiple-family dwellings. Both trends mean less wood sold. That means this will be the year of the low cost producer. Weyerhaeuser, for example, unlike most of its competitors, owns 6 million acres of very low cost timber and supplies all its lumber requirements. Even modest growth in demand for its lumber products will flow more or less directly to the bottom line. What makes Weyerhaeuser doubly appealing is that it has spent around $2.5 billion over the last five years mostly on pulp, paper and container making capacity. These lines now account for around 40% of Weyerhaeuser's $4.8 billion sales and position the company well for the surge in papermakers' profits that should follow the overall economic upturn likely to continue this year.

Timber-poor Louisiana-Pacific in Portland, Ore. has figured out a novel way to cash in on the upturn in downsized housing. LP Chairman Harry Merlo has invested heavily in waferboard, a new plywood substitute. Waferboard is made from peels of inexpensive trees like lodgepole pine and aspen. According to a recent study by Bowen Smith, Salomon Brothers' ranking forest products analyst, waferboard costs up to 30% less to produce than southern pine plywood. Yet it can be substituted for plywood in virtually all applications, indoors and out. Although it has less than 5% of plywood's sales so far, the growth potential of waferboard is impressive.

The surest sign of that is that plywood producer Georgia-Pacific is moving strongly into waferboard and a similar substitute, oriented stand board (OSB). GP, which produces 19% of America's plywood and sells 30% of it, now has two waferboard and OSB mills in operation and has announced it will add three more by 1985. That would give GP around 20% of the country's plywood substitutes capacity by 1985, against Louisiana-Pacific's 36% share then.

At the upper end of the industry Yardstick rankings last year were the wealthier papermakers. Once again Fort Howard of Green Bay, Wis. and James River of Va. stood head and shoulders above the pack. Fort Howard has developed an expertise at turning fiber waste products into valuable commercial tissues. Because fiber wastes are far cheaper than the virgin pulp most of its competitors use, Fort Howard has become the lowest-cost producer in the highly competitive tissues market.

James River, too, is the low-cost producer in several of its product lines. The company has avoided huge capital spending for new plants because it has been able to buy underused plants from less specialized papermakers. Moreover, James River is highly integrated: It converts trees to pulp, pulp to paper and paper into high-value-added paper cups, automotive filters, disposable towels and other products *(see box, p. 172)*.

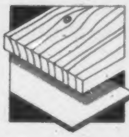
The cyclical paper industry will enjoy a fine year in 1984. Paper depends not on mortgage rates and housing starts but on overall business and consumer spending patterns. At the cyclical peaks, when everyone is running at full capacity, even a high-cost, widely diversified company like International Paper can earn over 25% on

Forest products

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
James River Corp Va	1	26.7%	25.0%	1.0	2	16.7%	17.5%	3.9%	1	56.2%	1	30.0%
Fort Howard Paper	2	24.0	22.7	0.1	1	18.9	18.3	16.0	2	15.8	2	15.7
Consolidated Papers	3	18.4	14.0	0.1	3	15.7	12.0	8.6	4	11.7	3	12.9
Kimberly-Clark	4	17.9	12.0	0.2	4	13.9	9.5	5.3	7	11.2	4	12.7
Union Camp	5	15.4	10.7	0.3	5	10.9	7.0	7.0	11	9.5	8	5.7
Federal Paper Board	6	13.2	4.3	1.4	11	7.8	4.3	1.3	21	6.1	10	4.6
Gt Northern Nekoosa	7	13.0	8.7	0.4	6	9.3	6.2	4.9	5	11.4	6	6.6
Westvaco	8	12.7	8.2	0.3	8	9.0	6.4	4.2	14	8.6	7	5.9
International Paper	9	12.6	5.8	0.3	7	9.2	5.1	5.0	24	5.5	9	4.9
Hammermill Paper	10	10.4	4.4	0.6	16	6.8	3.1	1.4	3	13.2	11	4.3
Scott Paper	11	10.2	6.2	0.3	10	7.8	5.2	4.0	10	9.6	5	6.8
Willamette Inds	12	9.9	5.5	0.9	9	8.1	4.7	2.2	8	11.1	16	–4.2
Weyerhaeuser	13	9.8	3.4	0.4	12	7.6	3.7	2.7	16	8.4	14	–3.1
SCM	14	9.2	3.0	0.5	14	7.2	3.4	0.9	19	6.3	12	3.8
Potlatch	15	8.9	5.2	0.5	18	6.6	4.2	4.2	19	6.3	15	–4.2
Georgia-Pacific	16	8.5	2.0	0.6	21	5.9	2.4	0.7	6	11.4	19	–6.3
St Regis	17	8.4	def	0.6	19	6.4	0.5	def	15	8.5	17	–4.3
Boise Cascade	18	8.4	3.8	0.6	15	6.9	4.2	1.7	12	9.4	13	0.2
Champion Intl	19	8.2	3.5	0.5	20	6.0	3.4	1.7	22	6.0	20	–6.5
Mead	19	8.2	def	1.0	17	6.7	1.3	def	13	9.2	21	–9.2
Longview Fibre	21	7.4	4.6	0.7	13	7.6	4.6	2.6	17	7.6	22	–10.6
Louisiana-Pacific	22	6.5	2.7	0.2	23	4.6	2.1	1.9	9	10.8	18	–5.2
Crown Zellerbach	23	3.9	2.8	0.6	24	4.1	4.1	1.8	18	7.1	23	–18.8
Southwest Forest Inds	24	1.7	def	1.1	22	5.5	0.5	def	23	5.7	24	–26.4
Industry medians		**9.9**	**4.5**	**0.5**		**7.6**	**4.3**	**2.4**		**9.3**		**2.0**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
def: deficit.



equity, as IP did in 1979, the industry's last boom year. Then the paper companies spend heavily on new capacity. The operating leverage that boosts earnings in the boom years comes back to clobber them as the economy dips. With the economy turning up again, operating leverage is beginning to work its old magic.

Look at badly hit St. Regis, which lost $49 million in 1982's fourth quarter, thanks to a writeoff on businesses being disposed of. St. Regis produces around 760,000 tons annually of linerboard, the brown paper linings on boxes. With everything from white goods to kids' toys moving off the shelves in 1983, as banner Christmas sales loomed, demand for linerboard picked up. So did its prices: up from around $220 a ton in 1982 to nearly $300 a ton late in 1983; $320 a ton is anticipated by early 1984.

"So you're looking at a $76 million swing for us on linerboard alone," says St. Regis Chairman William Haselton. Haselton predicts St. Regis earnings of $4 a share in 1984, vs. 1982's $1.29 a share. That's leverage.

Another product likely to do well in the coming years is uncoated white printing paper, which spews forth from computers and copiers. Union Camp Chairman Peter McLaughlin has wisely shunned broad diversification and concentrated his spending primarily on uncoated white papers and linerboard. He has torn a page from Fort Howard's book: He has developed a specialty chemical business that converts cheap waste chemicals into high-value-added resins. From nothing, Union Camp's chemicals division has grown to $260 million (sales). Says McLaughlin: "Frankly, I see nothing in any of our businesses that worries me this year."

The world's largest supplier of office copy paper is Great Northern Nekoosa. But Great Northern was hit by a 44-day strike last summer that cost the company nearly $11 million. The strike is over, as is most of the spending on a $560 million pulp mill in Mississippi, scheduled to open in September. Half of the new plant's output will be exported, mainly to Europe, a clear sign that the Scandinavians are running short on trees and are no longer the fierce competitors in the international pulp trade they once were. Of course, the paper industry's oldest enemy is the greed of its own executives in the up cycles. So it's not too soon to ask whether there will be another binge of overbuilding as profits rebound. Union Camp's McLaughlin thinks not, if only because new plants are so costly. He cites a plant he built in the 1960s, which cost $60 million. In 1977 he built an identical plant. Cost: $250 million. Today, he says, the plant would cost over $500 million to build, if Union Camp could obtain all the required permits. "That kind of capital simply is not available to very many companies," says McLaughlin.

So the industry can probably count on another year or two of prosperity, unless those $200 billion-plus government deficits throw a wrench into the recovery. Says Union Camp's McLaughlin, "We keep hoping the politicians will do something." ■

The best little paper company in America

From the Yardsticks, James River Corp. of Virginia looks more like a hot computer maker or defense contractor than a paper company. Founded 15 years ago by chemical engineer Brenton Halsey, now 56, and mechanical engineer Robert Williams, 53, James River's sales have grown at 56.2% annually over the last five years, to $2.4 billion today. Profits have compounded at 30%. Through boom and bust the company has earned, on average, 26% on shareholders' equity—better than twice the typical paper company's average.

It's been achieved by acquisitions, but this is no hall of mirrors from the Sixties. Halsey and Williams built their company by buying up numerous small mills that had become unsuited to the great economies of scale of the commodity grades but were ideally suited to the much smaller markets of specialty grades. In recent years, they have expanded into industrial and consumer commodity grades, but only in those lines where value-added is highest. The company now produces papers used in industrial items like sandpaper backing and automotive filters and consumer items like paper towels, sanitary tissues and paper cups. "We have no desire," says Halsey, "to become a cross section of the paper industry." The widely diversified giants that owned these small mills could have switched them over to specialty grades, too, of course, but either didn't find it worth their while to bother or were deterred by the need for a very specialized sales force.

So Halsey and Williams have been able to buy assets quite cheaply. Halsey says he usually pays book value or less and generally pays with combinations of James River stock (which trades at better than twice book) and cash borrowed against the acquired assets. In this sense, Halsey and Williams are leveraged buyout artists working from behind a corporate facade.

Once they buy an asset, Halsey and Williams use its cash flow to repay debt, improve productivity by modernizing plant and equipment and upgrade product lines. It works: James River's average selling price last year was $1,600 a ton, vs. the industry average of $500 to $600 a ton.

How long can James River keep buying ever larger ever more frequently? In 1980 it bought Gulf & Western's $500 million (sales) Brown Co. for its big pulp mill in New Hampshire. In 1982 it paid $450 million for American Can's $1.1 billion (sales) Dixie-Northern operations, makers of the Dixie cup; Dixie-Northern gave James River another large pulp mill in Alabama. Last year the duo paid Sir James Goldsmith $170 million for Diamond International's pulp and paper assets. The American Can and Diamond International acquisitions added around $1.3 billion in consumer paper products to balance out the industrial side.

Now that is the corporate fast track. But Halsey says he can keep it up. He promises to compound James River profits at a minimum 15% annually, after inflation, for the next five years. To do so James River is spending $1 billion during 1983-87, all internally generated. Around $350 million will go for basic upkeep. The other $650 million is earmarked for plant refurbishment and expansion. This, says Williams, will double James River's operating margin, from 3% in early 1983 to 6% by 1987, and by 1987 will triple the company's profits.

Says Williams of the implied 24.5% annual earnings growth rate: "We think that's very conservative."

Well, it is a $40 billion industry, so there's still lots of room to maneuver.—L.M.

The recovery is under way in the chemical industry. Now if producers can just keep those expansion plans on the shelf.

Chemicals

By Thomas Jaffe

THE PRICE RISES were beginning to stick in the chemical industry last year: in ammonia fertilizers, as high as $160 a ton, vs. $115 last summer; in polyester fibers, from 75 cents a pound to 82 cents during the same period; and in plastics, like low-density polyethylene and polypropylene, up more than 20% during 1983. But talk to chief executives and they sound a warning note at once. "Volume is improving, but from a very low point," says Paul Oreffice, chief executive officer of $10.6 billion (sales) Dow Chemical Co., which sank sharply in the latest 12 months on Forbes' industry Yardsticks because of slumps in such commodities as caustic soda and ethylene glycol and a sharp swing into the red by its Dowell oil production services. "At the end of 1982 we were operating at 65% of capacity. Now we're at 75%. That's not lousy, it's just bad. We'd like to be in the 80%s, so there's still a ways to go." Not until 1985, in Oreffice's opinion, can Dow hope to get back to peak 1980 levels.

The caution is commendable. Here is an industry with a tendency to get carried away in good times and to overexpand, with dire results, when demand turns down. Under pressure from the recession, the industry has been shedding a lot of the fat. Consider $9.1 billion (sales) Union Carbide Corp., just as badly hurt as Dow on the Profitability Yardsticks and only now beginning to recover after eight successive quarters of down earnings. Since 1978 Carbide has unloaded over $1 billion of assets, and is still at it. Recently the company wrote off $140 million, including a polyethylene operation in Texas and olefin and derivative facilities on the Gulf Coast.

Nevertheless, significant pockets of overcapacity still exist. Since 1980 a spate of plant openings in western

Chemicals

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Diversified												
W R Grace	1	15.0%	7.1%	0.5	3	10.4%	5.5%	2.6%	6	9.7%	5	6.4%
Rohm & Haas	2	14.6	16.5	0.3	2	11.2	12.8	7.3	5	10.0	1	22.0
Dow Chemical	3	13.5	4.9	0.6	8	8.9	4.9	2.3	4	13.1	13	–1.6
E I du Pont	4	13.5	9.2	0.5	1	11.5	7.4	2.8	1	22.5	3	8.3
Diamond Shamrock	5	12.9	7.4	0.5	9	8.8	5.7	3.2	3	18.7	16	–6.1
Hercules	6	12.8	11.4	0.4	4	10.3	10.2	5.7	8	9.0	2	9.4
FMC	7	12.8	12.1	0.3	5	9.3	8.6	4.6	13	7.9	4	7.1
Stauffer Chemical	8	12.2	def	0.3	6	9.0	0.5	def	14	7.6	10	–0.6
Allied Corp	9	11.6	9.0	0.2	10	8.2	7.4	3.7	2	18.8	6	4.4
American Cyanamid	10	11.5	9.7	0.3	7	8.9	7.9	4.3	7	9.4	7	1.8
Union Carbide	11	11.1	4.3	0.4	12	8.1	3.8	2.5	12	8.0	8	0.9
Monsanto	12	10.4	9.2	0.3	13	7.5	6.8	5.4	9	8.9	12	–1.3
National Distillers	13	9.8	4.4	0.2	11	8.1	4.5	2.3	15	6.3	14	–2.4
Pennwalt	14	9.0	6.2	0.4	14	7.1	6.0	2.8	17	6.1	15	–2.8
Celanese	15	8.2	3.1	0.6	16	6.3	3.2	1.2	10	8.6	9	–0.6
Olin	16	8.2	6.9	0.3	15	6.5	5.7	3.0	16	6.1	11	–0.9
Reichhold Chemicals	17	6.3	8.4	0.3	17	5.2	6.1	2.3	11	8.0	17	–7.7
Medians		11.6	7.4	0.3		8.8	6.0	2.8		8.9		–0.6

Note: Explanation of Yardsticks calculations on page 38.
def: deficit.

Canada has helped increase North American methanol capacity 56%, to 2.5 billion gallons. Demand is only 60% of that. Since these Canadian operations run on cheap natural gas, they are a major threat to higher-cost U.S. producers like Celanese, which has Canadian capacity of its own.

Another overbuilt market is that of ethylene glycol, used mainly in antifreeze and polyester fiber. For instance, Union Carbide has a 520-million-pound-capacity plant scheduled to open this year in Alberta. Additions like this will boost capacity to around 7 billion pounds; current demand is only 4.8 billion.

In worse shape is the $650 million soda ash business. In 1980-81 soda ash, used in glass and phosphate refining, was enormously profitable for producers like Stauffer Chemical and FMC. As a result, by 1983 producers expanded capacity nearly 30%—from 9.2 million tons to 11.8 million. The chief player was Tenneco, accounting for 1 million tons of the rise.

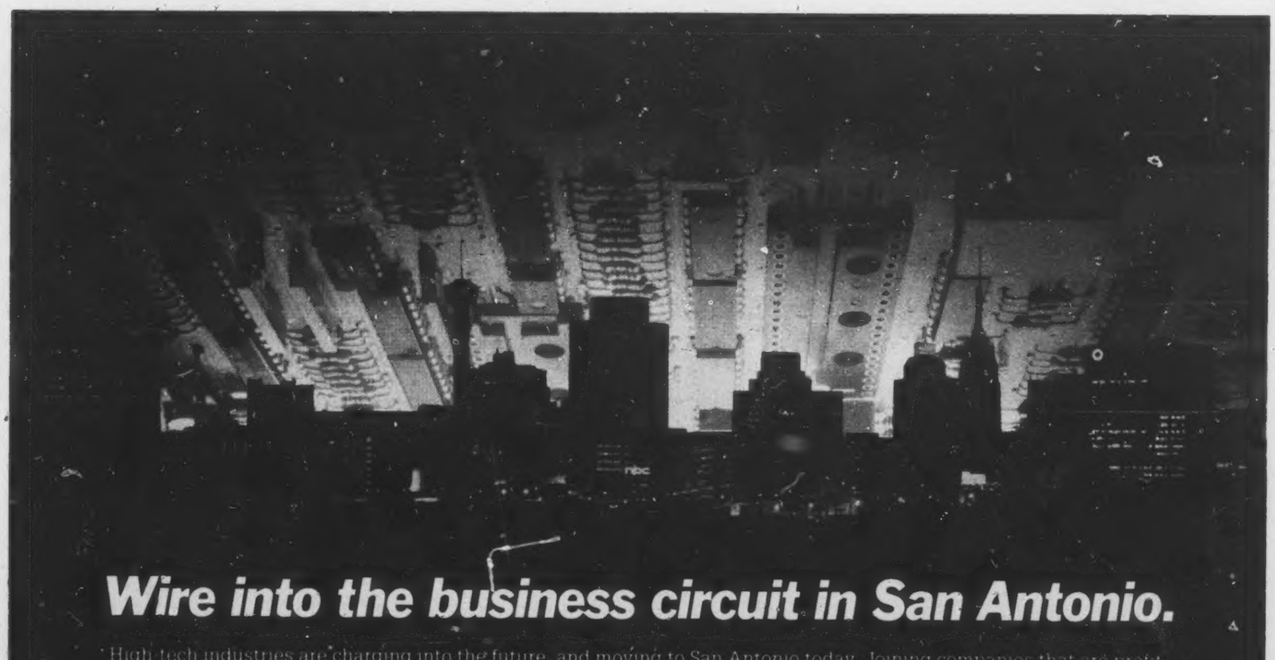
Trouble is, the long-term growth rate of soda ash is a meager 2%. The domestic market simply has been unable to absorb the new tonnage, and foreign markets have grown more slowly than expected. So list prices, which peaked at $92 a ton in July 1981, are now running in the low $80s, and cutthroat competition has even driven actual prices below $70.

Finally, there is chlorine. Although demand is up, the business still isn't operating at much more than a 70% rate. But an estimated 5% of capacity is permanently shut, and this figure ought to double by the end of 1984. Chlorine producers are faced with a real dilemma, though. Because they have already retrenched, greater volume for some products has led to spot tightness and higher prices. "The danger is that once there is the slightest positive news, companies will be tempted to reopen a bunch of plants that should never be started again," notes Dow Chief Executive Oreffice, who says he's still wary of reopening 20% of Dow's own capacity now shut.

Meanwhile, most of the Yardstick companies have been redeploying assets, striving mainly to concentrate their bets in the safer and generally more lucrative specialty chemicals. One of the more enthusiastic proponents of redeployment has been $2.5 billion (sales) Hercules Inc., which along with equally acquisitive Rohm & Haas has held up well in the latest 12 months' profitability rankings. Over the past five years Hercules has wiped off its balance sheet half its 1978 assets of $1.6 billion, consisting mainly of commodity petrochemicals, including $450 million spun off into a polypropylene resins joint venture with Italy's Montedison. In their place are more than $1 billion of new assets (not including the acquisition of Simmonds Precision Products, in electrical components), more than double the amount in water-solubles, aerospace and explosives, and a substantial increase in organics.

"This is one hell of a lot different company than it used to be," says Hercules CEO Alexander Giacco. "What we've done is to strip the oldies down to their bare essentials and then put money behind them."

Hercules is now running at 70% of capacity, which is a bit below average for the Yardsticks chemical companies, and Giacco expects that to approach 80% in 1984. For Hercules, however, that's much higher-margined capacity than it used to be. "We've gone with our winners, value-added products. We've got rid of a pound of basic plastics and replaced it with a pound of water-soluble polymers. In fibers we've got out of polyester intermediates, but stayed in diaper covers and health care disposables."



Wire into the business circuit in San Antonio.

High-tech industries are charging into the future, and moving to San Antonio today. Joining companies that are profiting in San Antonio, such as Southwest Research Institute, Advanced Micro Devices, Tandy Corporation and Datapoint. They profit from the high productivity of an energetic, trainable work force. The resources offered by nine colleges and universities. And a citywide commitment to corporate expansion and relocation. Join these high-tech companies that mean business in San Antonio. And wire into a winner.

For an Executive Summary and more information, contact
Terry Britton, President, San Antonio Economic Development Foundation,
P. O. Box 1628, San Antonio, Texas 78296, (512) 226-1394

Despite cutbacks on capacity, there is increased spending on research and development, partly spurred by advances in genetic engineering, the desire to diversify into neighboring scientific fields and growing competitive pressure. At $6.3 billion (sales) Monsanto Co., which drastically cut back its research efforts a decade ago, a full one-third of the $300 million R&D budget now goes into pure discovery, much of that in the field of genetic engineering. The same focusing of research effort is occurring among European chemical giants.

Union Carbide and Shell Oil's chemical division recently announced the development of a new manufacturing process that could cut production costs for polypropylene by one-third and capital costs by about the same. Carbide estimates the price of its new plant, with up to 200 million pounds of capacity, will be $40 million to $45 million.

Breakthroughs like that can open up new markets. Example: Dow used to sell styrofoam only in major markets—the U.S., Japan and Western Europe—because it didn't think it was economical to produce except in a monster plant. Now it has entered smaller markets because it has found out how to get the same economies from plants only one-fifth to one-third the size.

One approach to new products and processes is to take the acquisition route. Few companies in this industry have done that with greater success than $1.6 billion (sales) Air Products & Chemicals, consistently a profit leader in industrial gases in competition with the Linde division of Carbide and British Oxygen (which bought Airco in 1978).

"Over the last 30 years we've had around 120 'special ventures'—either acquisitions, joint ventures or technologies bought and then developed in-house," says Edward Donley, Air Products & Chemicals chairman. "We've managed to stay a specialty company instead of becoming a conglomerate throughout all this because everything has been so closely related. We're not interested in an acquisition candidate unless we already mastered internally two-thirds of its technical and sales knowhow."

If Air Products' profitability in the latest 12 months looks merely average for the industry, the future looks bright. Holding long-term debt to about 35% of total capital, Donley expects to be able to finance capital spending of an average of $400 million a year for the next five years mostly through internal cash flow, modestly increase dividends at the same time, and still have about $1 billion that isn't earmarked. "That," says he, "is the sound of growth."

"When I hear something like this," says Oreffice, "I can understand why many companies want to go clean out of basic chemicals and plastics. But don't overlook the fact that as long as you stay strong technologically and pump money into manufacturing processes, there is plenty of growth potential still available in these products. And you don't need to build more monster plants to get it."

Dow has certainly proved that it is possible to make good money in commodity chemicals—and that the Air Products road isn't the only road. It's not what you do that counts but how you do it. ■

Chemicals

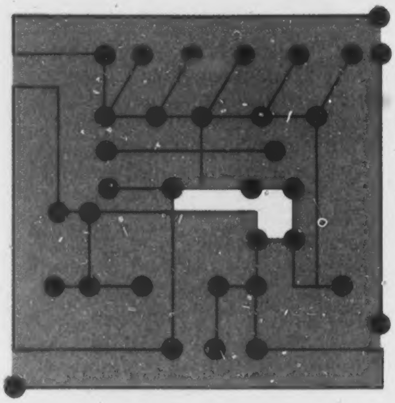
Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Specialized												
Freeport-McMoran	1	24.3%	12.4%	0.5	4	16.7%	6.7%	11.8%	3	19.1%	3	21.5%
Nalco Chemical	2	23.5	18.4	0.1	1	22.9	17.8	9.6	11	10.7	8	11.9
Cabot	3	21.3	9.9	0.3	6	14.0	7.5	4.1	1	23.3	1	29.3
Morton Thiokol	4	20.6	16.3	0.2	5	15.6	15.7	5.2	8	12.4	2	26.9
Lubrizol	5	20.6	12.6	0.0	2	19.0	11.8	7.4	9	11.9	13	7.6
National Svc inds	6	20.1	18.6	0.0	3	17.7	16.8	5.9	12	10.5	5	16.5
Vulcan Materials	7	18.6	10.2	0.2	7	13.6	8.0	5.9	15	9.7	11	10.8
Dexter	8	17.6	16.3	0.3	9	12.7	11.6	5.1	4	17.2	10	10.8
Big Three Industries	9	17.2	8.4	0.3	8	13.2	7.0	7.6	2	19.3	6	14.5
Air Prods & Chems	10	16.8	11.5	0.5	15	10.1	7.6	6.7	7	12.8	7	12.4
Sun Chemical	11	15.8	9.4	0.9	11	10.7	7.1	2.2	6	13.6	4	17.2
Witco Chemical	12	15.6	15.0	0.4	10	10.8	9.9	3.4	5	14.9	12	8.7
Intl Minerals & Chem	13	15.1	8.4	0.4	12	10.5	6.5	5.8	19	6.4	17	1.0
Ethyl	14	14.3	12.5	0.4	14	10.2	8.7	5.9	17	7.5	14	4.4
PPG Industries	15	13.9	12.1	0.3	13	10.4	8.9	5.8	16	8.1	9	10.8
Liquid Air	16	11.7	8.3	0.4	17	9.1	6.1	5.3	10	10.7	18	–0.1
Ferro	17	11.2	8.5	0.4	16	9.9	7.1	2.5	13	10.4	16	1.3
SCM	18	9.2	3.0	0.5	18	7.2	3.4	0.9	20	6.3	15	3.8
Williams Cos	19	9.1	2.4	0.5	19	5.8	2.5	1.6	14	10.1	19	–2.0
Gulf Resources & Chem	20	def	11.8	2.2	20	2.0	7.3	3.0	18	7.4	20	P–D
GAF	21	def	def	0.9	21	def	3.2	0.1	21	–5.0	20	P–D
Medians		15.8	11.5	0.4		10.7	7.5	5.3		10.7		10.8
Industry medians		13.2	9.2	0.4		10.0	7.1	3.9		9.9		4.4
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
P–D profit to deficit. def: deficit.

In this business, everybody has two competitive worries: the other companies and Japan.

Electronics



By Kathleen K. Wiegner

After two years of bad times the recession has ended in the electronics industry. For nearly all companies, however, the 12-month figures in the accompanying Yardsticks still look gloomy. That's because the upturn is recent and the effects of hard times linger in our numbers. The improvement doesn't show in the 1983 Yardsticks, but it will in 1984.

Look, for example, at Intel. Its earnings were a shadow of former highs through the March quarter, but then things suddenly took off. Profits almost doubled in the June period, and then came one of the best-ever Septembers. "This is the strongest recovery I have ever seen," says Chairman Gordon Moore. "There are so many products people want to move into production, but the rate of systems growth will be limited by the availability of components." His company, for example, is having trouble meeting delivery schedules, especially for its popular microprocessors.

Strong demand for semiconductors

Electronics

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
EG&G	1	29.6%	25.3%	0.1	1	26.4%	23.3%	5.2%	8	20.0%	2	25.0%
AMP	2	23.9	20.1	0.1	3	20.9	17.8	10.3	11	16.2	8	17.3
Raytheon	3	23.0	17.4	0.0	2	22.0	17.0	5.2	13	15.1	6	17.8
Hewlett-Packard	4	19.8	18.0	0.0	4	18.9	16.9	9.2	5	24.3	4	22.2
General Instrument	5	19.6	12.1	0.1	6	17.1	11.2	8.0	14	13.6	1	30.1
M/A-Com	6	18.2	9.3	0.4	5	17.4	7.8	4.7	1	46.0	3	24.6
Intel	7	17.8	12.0	0.3	7	16.8	10.0	7.5	2	29.1	11	14.2
Avnet	8	17.7	11.1	0.0	8	16.5	11.0	4.6	17	12.9	13	11.3
Harris Corp	9	17.6	9.0	0.3	12	12.7	6.7	3.9	9	18.3	7	17.6
Perkin-Elmer	10	17.4	9.5	0.1	9	15.2	9.0	4.7	6	20.8	5	18.2
TRW	11	17.4	12.2	0.2	14	11.5	8.6	3.5	21	10.9	17	7.7
Tektronix	12	16.6	7.8	0.2	10	14.4	6.9	4.2	7	20.8	10	14.7
Motorola	13	14.9	11.9	0.2	11	13.5	10.9	5.0	12	15.5	12	12.7
Natl Semiconductor	14	14.5	def	0.4	13	11.5	0.2	def	3	25.8	18	6.4
GTE	15	14.3	15.6	0.9	24	7.5	7.8	7.4	22	9.8	20	5.1
Honeywell	16	14.3	10.6	0.3	15	11.2	8.4	4.0	19	12.4	9	15.5
North Amer Philips	17	13.2	11.2	0.3	19	9.2	7.8	2.5	18	12.5	15	9.3
American District	18	13.0	13.7	0.1	18	9.3	9.4	5.8	16	13.4	16	8.6
American Tel & Tel*	19	12.3	10.2	0.5	25	7.4	6.5	9.7	20	11.7	20	5.1
Corning Glass Works	20	11.5	9.7	0.4	17	9.9	7.3	6.2	24	7.4	19	5.7
Intl Tel & Tel	21	10.9	10.1	0.5	20	8.9	8.5	4.2	25	5.9	22	3.3
Gould	22	10.8	8.2	0.4	21	8.7	7.1	5.3	23	8.0	24	–4.6
Texas Instruments	23	10.1	def	0.2	16	10.5	def	def	10	17.1	23	–2.1
Varian Associates	24	8.6	15.2	0.3	23	7.7	12.9	5.9	15	13.5	14	9.7
Oak Industries	25	3.6	def	0.9	22	8.5	def	def	4	24.4	25	P–D
Industry medians		**14.9**	**11.1**	**0.3**		**11.5**	**8.5**	**5.0**		**15.1**		**11.3**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
*Data are on predivestiture basis. P–D: profit to deficit. def: deficit.

helped Motorola post gains of 92% in the third quarter, while National Semiconductor had its first profitable quarter since 1982. "I've never seen a market as strong as this," says President Charles Sporck, echoing Moore. "I can't explain it exactly. It seems to be more than just a better economy."

At Massachusetts-based EG&G, they know what Sporck is talking about: The company has done better than the economy for years and tops the Forbes Profitability roster for its industry. The firm's mix of manufacturing specialized instruments and components and providing government support contracts (it is prime contractor to the Department of Energy) leaves it uniquely positioned.

EG&G couldn't beat its five-year return on equity average last year, but that was no disgrace: its ROE was 25.3%. Only 3 of the 25 firms on our list managed to top their five-year profitability figures. The growing demand for alarm systems helped American District Telegraph, though higher installation costs and heavy capital spending should hurt profits next year. GTE benefited from growing sales of its telecommunications products and a $60 million tax settlement. Varian Associates, meanwhile, is recovering impressively from a 1981 deficit.

W.J. (Jerry) Sanders, the outspoken president of Advanced Micro Devices, thinks the recovery is being led by the information revolution. "During the recession," he explains, "people were designing products in anticipation of a recovery." Fortunately, nearly all those new product designs, from small computers to telephone gear, mean more orders for component manufacturers.

Consider AMP, the leading producer of power connectors and the industry's second-best company in terms of long-term profitability. Its products are used in a wide range of markets, from military and aerospace to communications. But each IBM PC also contains around $40 worth of AMP parts. That translated into around $40 million in sales for the $1.2 billion company in 1983. When the PCjr begins shipping this year, it could add another $15 million to AMP's sales.

The good times, of course, haven't hit everyone—and cable television is a common link among many firms that are still suffering. The fall in demand for cable-related equipment, for example, has hurt General Instrument badly. M/A-Com is also suffering because margins on its coaxial cable business are shrinking. Cable operators are shifting away from trunk capacity to less expensive drop lines. Then there is Oak Industries. Its cable equipment business is off, and the company has set up loss reserves of over $70 million related to its departure from subscription television in Phoenix and Dallas as well as inventory writedowns.

Tektronics is hurting badly, but for different reasons. It is the leading manufacturer of oscilloscopes, and sales have been flat for the past two years. Profits fell from over $80 million in 1981 to less than $50 million in the fiscal year ending in May. Now the company has cut its work force by 9% and hopes that expanded R&D spending will add excitement to its product line.

A few microchip producers are having problems, too. At Gould, profits from continuing operations fell 6% in the third quarter as a result of lower semiconductor margins and product delays of new lines of test and measurement equipment. At Honeywell, semiconductor losses are also depressing margins.

Intel's wafer fabrication line
Making chips gets more costly.

But for most component makers, by contrast, the upturn came so quickly that they are straining to keep up. The recession was a curious one: Unit shipments rose while prices fell through the floor—off by 70% on some parts. Now prices are firming, but new orders are hard to fill. "We can barely satisfy our existing customers, let alone prospective ones," says AMD's Sanders.

The book-to-bill ratio is the industry's favorite index of health. When this number exceeds one, it means new orders are outpacing billings. A figure of 1.5 is considered ideal. In October this index stood at 1.56, which means that lots of parts are in short supply—everything from Intel's and Motorola's microprocessors to ordinary logic circuits from Texas Instruments.

In 1984 U.S. and European chipmakers expect to enjoy 24% sales dollar growth rates unless the recovery stalls. But this recovery won't be just like the last one. There have been structural changes in the electronics business that do not signal a simple replay of the boom that followed the bust of the mid-Seventies.

Take markets. In the past, mainframe and minicomputer companies were key factors in any industry turnaround. Now the principal buyers are manufacturers of personal computers, communications equipment and word processors. The auto industry is also a major customer. Ford, for example, estimates that it now uses over $300 worth of electronic gear in every car, not including the radio, vs. $25 in 1970. Fortunately, this broadens the industry's base, both in terms of companies and markets.

Despite the change, not every part is in short supply. Garden variety read-only memories (ROMs), for example, are readily available. They are a key component of video games, a business that has gone bust in recent months. Texas Instruments' exit from the home-computer business also contributed to the glut of ROMs. It is throwing units on the market that were originally intended for its PCs.

Even as the recession hit bottom in the summer of 1982, several dozen new semiconductor companies were springing up, backed by hefty amounts of venture capital, to exploit one or two devices or a particular process technology. A handful, among them LSI Logic, VLSI Technology and SEEQ Technology, have already gone public. While still too small to show up on the Forbes Yardsticks, they point the way to technologies that will be important over the next several years.

Two-year-old Linear Technology, for example, was formed by a group of engineers who left National Semiconductor. It makes analog circuits, which translate analog information (like sound or heat) into on-off digital impulses. Analog circuits are expected to enjoy a 30% growth over 1984. It is no surprise that National Semiconductor is still a big player in that business.

LSI Logic, on the other hand, makes gate arrays. These permit customers to customize standard chip designs. Much of the startup activity stems from this custom or semicustom business. Monolithic Memories has been making a programmable array logic (PAL) chip for some time. But now it has competition from Advanced Micro Devices and National. SEEQ was one of the first with a memory chip called an EEPROM,

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which can be reprogrammed while still in the computer. Many companies, including Japanese firms, see this as a particularly promising product.

When the last recession ended, the Japanese were not significant participants in the U.S. microchip market. That changed, however, when domestic companies ran short of capacity. The Japanese graciously helped fill the gap with 16,000-bit and then the 64,000-bit random access memories. Having destroyed profits and market share for U.S. companies, the Japanese will be back with the new 256,000-bit RAM.

For the moment, the Japanese chipmakers are having troubles supplying demand at home. That may end this year as the new capacity they continued to build during the recession comes on. Then the battle with U.S. firms will be joined again. Quality, once a selling point for the Japanese, is no longer the big issue. U.S. makers have got their own quality up. But price is another matter. As soon as the Japanese have the parts to sell, they could once again penalize profit margins of U.S. competitors by undercutting them.

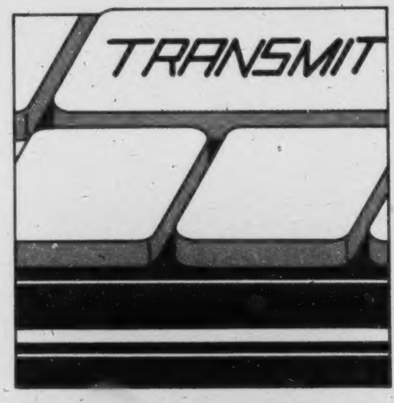
There have been structural changes in the electronics business that do not signal a simple replay of the boom that followed the bust of the mid-Seventies.

Will components makers enjoy the same successes they did after the last recession? At Intel, for example, ROE rose in 1979, to 30% on no debt. Net profit margins were 11.7%.

No one knows if such profitability is attainable again. Aside from the Japanese challenge, the cost of making chips has risen enormously. National Semiconductor's new Texas wafer fabrication facility represents a $100 million investment. After a history of no debt, Intel now has long-term debt of $97.4 million, 6% of total capital. If companies do not earn money to finance these higher operating costs, look for more help from outsiders. Over the past two years, for example, IBM purchased a 12% interest in Intel for some $250 million. Such cross-fertilization of money and talent are old hat in Japan. As the U.S. strives to keep ahead of the ambitious Nipponese, we can expect more such here. ■

IBM is crowding everyone these days, but the game isn't over yet. Not by a long shot.

Computers



By Kathleen K. Wiegner

IBM WAS ON THE MOVE with a vengeance in 1983 in a push to blanket every corner of the computer industry. In November it finally unshelled its "Peanut," renamed PCjr, but decided not to begin shipping until after Christmas—an invitation to the public to put off buying the personal computer until they could see an IBM machine. That was a body blow to competitors in the home computer market, who get as much as 40% of their sales at Christmas. At the same time IBM strengthened its hand in midrange systems with the 4361, which competes with superminicomputers for scientific applications. While in office computers it served notice on Wang, Apple and the terminal makers by giving its hot-selling PC the capability of communicating with IBM 370 mainframes.

Among the top companies on the computer Yardsticks, only IBM managed to improve its five-year return on equity. For many others in the industry things weren't so pleasant. Texas Instruments lost $513 million in home computers before calling it quits. Warner Communications' troubled Atari division was beginning to look like the next victim in that market. Digital Equipment Corp. was hit with an earnings decline of 72% in its first quarter (ended Oct. 1), as price-cutting savaged the minicomputer business and lack of software held back sales of its personal computers. DEC also had heavy research spending. Osborne Computer filed for Chapter 11, and a number of startups went on the critical list—among them, Fortune Systems, Vector Graphic and Victor Technologies.

There were some bright spots, however. TI's defeat was good news for Commodore, now about the only profitable company left in the low-end, mass-merchandise home computer market. Data General, after almost three years of declines and a crash research effort, saw its earnings move up on the strength of its competitively priced Eclipse superminis. Tandy's Radio Shack computer operation strengthened its hand with what may have been the niftiest product of the year—the portable Model 100 (made for Tandy by Japan's Kyocera Corp.), which was becoming as much a part of a traveling journalist's gear as the trenchcoat.

IBM PCs roll off the assembly line
Volume means lower cost.

How to survive in an environment where IBM obviously wants to commandeer once-safe markets? That was Topic A for everyone except for IBM. In personal computers Apple charged ahead preparing for the introduction of its much-touted Macintosh computer this month and pushed its mainstay Apple IIe at customers who wanted something under the tree besides a gift certificate.

For the microcomputer makers the problem is software. Since the IBM PC already has an estimated 26% of the personal computer market, it has become the machine of choice for independent software writers who make money only by writing for popular machines. Apple once had that loyalty, and being able to offer the machine with the most programs contributed mightily to its past success. Now the software world belongs more and more to IBM.

One solution is a computer that can use a lot of the same software as the IBM machine. A number of startups took that route: Compaq, Columbia Data Products, Eagle Computer—or the "IBM Clones," as they are called. Using the same Intel 8088 microprocessor and MS/DOS operating system as IBM, these machines run most of the IBM software, as is.

Cloning looked like a good idea to ITT, which, in a better-late-than-never move, entered the personal computer fray in November. Its entry, the Xtra, is a virtual knockoff of the IBM PCXT (the super PC). ITT may find a market in Europe, where it has a strong presence. But in the U.S. the clones undersell IBM by up to 25%. ITT's Xtra is only 5% cheaper. That may not be enough of a discount to buy ITT a slice of the U.S. market.

Right now there is more demand than supply for the IBM computer. That excess demand is being filled by Compaqs and Eagles. But what happens when supply catches up? "The problem is not easy to solve," muses George Morrow, founder and president of Morrow Inc. "You have to have 25% to 50% better performance than the IBM PC, at least a 15% to 50% better price. Any closer, and why buy anything but IBM?"

"How do you make a profit if IBM gets the biggest share and the lowest cost?" asks Data General Senior Vice President Robert C. Miller, who worked at IBM for 15 years. "Say it takes a half-hour assembly labor for a personal computer. The rest of the cost is buying components and subassemblies. Then it becomes a question of who can buy parts the cheapest." The big-volume buyer, of course. The big-volume buyer really has it made when he cannot only buy cheaper, but can sell dearer as well. That's where IBM is sitting.

Being what it is, IBM also gets the goods when components are in short supply. Ask Victor Technologies. Victor was riding high until 1983. Shipments were expected to hit 80,000 by year-end. Then Victor couldn't get all the disk drives it needed from Tandon Corp. (which also happens to be a big drive supplier to IBM). Shipments were delayed. Setting up a sales force to compete with IBM also cost the company dearly. Result? Victor lost $11.1 million in its second quarter, ended June 30.

Instead of simply cloning IBM, Data General has taken a middle-of-the-road approach to dealing with the software problem. It provides its machines with a dual processor, which allows its users to run software written for Data General's machines and for IBM as well.

Users of Hewlett-Packard's HP 150 cannot run IBM software on their machines but are likely to get most of the same programs anyway. That's because the HP 150, introduced last October, uses the same operating system as the IBM PC. In practical terms that means it will be easy for software writers to produce for both machines at the same time—but will still give HP the possibility of having exclusive software and other exclusive features. "To be a clone limits you in making your own contribution," explains Cyril Yansouni, head of HP's personal computer group. "Price and availability are short-term advantages. I don't want to wake up every morning and worry about what IBM is doing."

Working within what the industry calls "the IBM environment" has become as much of a concern for microcomputer makers as it has always been for the minicomputer and mainframe companies. Companies like HP, DEC and Data General must protect their installed base from incursions by the IBM PC. Office products outfits like Wang must be sure that as offices begin to link their desktop products together, and each into their mainframes, IBM is accommodated. In October Wang began offering software that for the first time links Wang products to IBM machines.

The sheer momentum and size of IBM poses an additional problem for its traditional mainframe competition: Burroughs, Sperry, Honeywell. IBM's growth rate has returned to 15%—the industry rate—after almost a decade of lagging. IBM sales in 1983 were an estimated $40 billion, an increase of more than $5 billion for the second year in a row. That $5 billion almost equals the total size of a Sperry or a Honeywell. With that kind of volume disadvantage, how can they hope to compete when IBM has been pouring money into new plant and equipment (its highly automated factories for the PC are only one example) with the expressed aim of becoming the low-cost producer?

So competitors have begun to join forces to counter the IBM threat. Burroughs, for example, buys part of its office computer line from Convergent Technologies, a young company with a more efficient manufacturing base. DEC, Sperry and CII-Honeywell Bull are helping fund Gene Amdahl's Trilogy Inc., which will try to head off IBM's top-of-the-line mainframe code-named Sierra. Plug-compatible makers like Amdahl Corp. and National Semiconductor's National Advanced Systems (NAS) are relying more heavily on their Japanese partners (Amdahl with Fujitsu and NAS with Hitachi) to deliver timely, cost-effective answers to IBM. But IBM is making it tough. It recently sued NAS, Hitachi and several former employees of both IBM and NAS for $7.5 billion, charging its secrets had been stolen by Hitachi and NAS.

As for Apple, still first on the Forbes Profitability Yardsticks, much depends on the soon-to-be-introduced Macintosh. Mac, as it is fondly known around the company, will incorporate the advanced software found in Apple's high-end Lisa computer, but at a far lower price of around $2,000. Steven Jobs, Apple's cofounder and chairman, admits Apple made some mistakes with Lisa, which originally re-

Computers

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Apple Computer	1	100.5%	28.4%	0.0	1	110.4%	28.2%	7.8%	1	122.3%‡‡	1	98.3%‡‡
Wang Laboratories	2	31.3	20.8	0.4	3	20.5	15.3	10.1	2	51.4	2	50.3
IBM	3	23.2	25.6	0.1	2	21.2	22.6	13.4	10	12.8	10	10.0
Storage Technology	4	20.8	0.6	0.6	6	15.3	2.8	0.3	3	39.6	4	22.8
Hewlett-Packard	5	19.8	18.0	0.0	4	18.9	16.9	9.2	7	24.3	5	22.2
Digital Equipment	6	15.7	7.1	0.0	7	14.2	7.0	5.5	5	30.2	6	21.2
Datapoint	7	15.5	4.0	0.4	5	17.1	4.3	2.4	4	36.8	7	17.6
NCR	8	14.6	13.5	0.2	8	12.9	12.3	7.3	14	7.9	9	10.4
Honeywell	9	14.3	10.6	0.3	10	11.2	8.4	4.0	12	12.4	8	15.5
Data General	10	13.5	4.9	0.3	9	12.0	5.2	2.8	6	29.1	11	8.8
Control Data	11	10.5	8.8	2.0	14	6.9	6.3	3.5	9	13.4	3	23.7
Sperry	12	10.3	6.1	0.3	11	8.4	5.4	2.9	13	8.4	12	2.0
Burroughs	13	8.0	9.0	0.4	13	7.3	7.2	4.5	11	12.4	13	–4.0
Amdahl	14	7.1	8.4	0.2	12	7.3	7.9	4.1	8	22.0‡	14	–14.1‡
Industry medians		**15.1**	**8.9**	**0.3**		**13.6**	**7.6**	**4.3**		**23.2**		**16.6**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. ‡‡Three-year growth.

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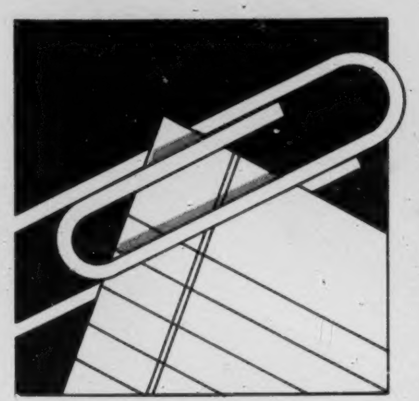
tailed for close to $10,000 when it was introduced. "We made Lisa too expensive for the personal computer market," admits Jobs. "And we were late with the software. Sales have not met our hopes." With Macintosh, Apple is trying for a technological end run. John Sculley, who was brought in from PepsiCo as Apple's chief executive, sees it this way: "If the technology is frozen, then IBM has the office market. But it is naive to presume technology is frozen. We believe we have the possibility with Macintosh of establishing a new milestone."

But times are getting tougher for the industry in other ways as well. Venture capitalists no longer flock to pour money into a new personal computer company. The stock market is betting once again on more established companies. In spite of the boom in sales, microcomputers lost an estimated $600 million early in 1983, largely in the home products. With Commodore the only other viable contender in the under-$1,000 market besides IBM, Japanese companies like Canon, Sharp and Sony will probably try again in 1984 to crack the low end of the American market.

But the combination of Commodore and IBM could be tough to buck even for the Japanese if PCjr is a success. Commodore's sales of home computers hit an estimated 1 million units in 1983. For its fiscal year ended in June, Commodore earned $88 million on sales of $681 million, while at the same time driving TI out of the business, the same TI that had the reputation of being the most "Japanese" of U.S. companies.

The all-important office can, of course, accommodate more than one vendor, so IBM's growing strength doesn't necessarily doom its competitors. But it makes life more difficult for them. It will be important for companies to offer some way for different machines to work together. Users will continue to want access to popular software, so there will be stronger alliances between hardware and software companies. Marketing will become increasingly important. All this plays into the hands of companies with strong capitalization, broad product offerings and large sales organizations. Among IBM's stronger competitors, Apple is strong on innovation, Commodore on price and Tandy on distribution. The others? At this point in the game there is at least as much danger to investors of being stuck with a loser as a winner. ■

Which of the old-line companies in office equipment and services did best last year? Not necessarily the ones you might expect.



Office equipment and services

By John A. Byrne

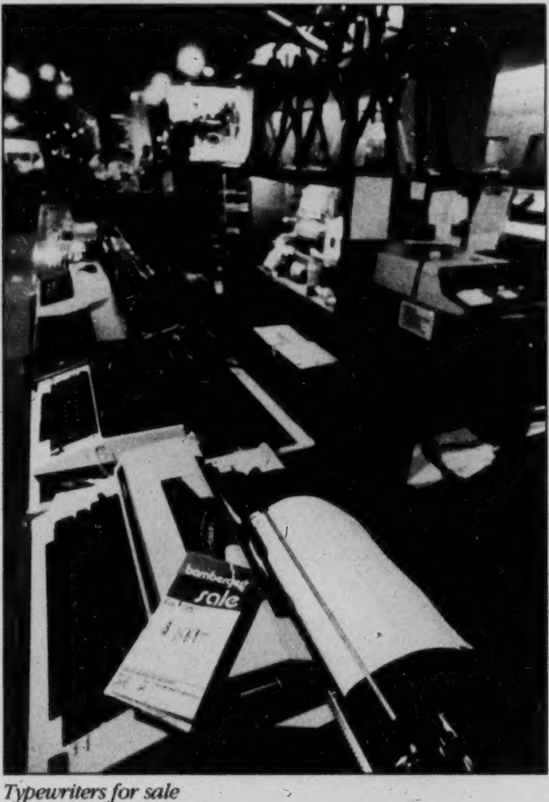
THE DEATH OF THE typewriter, it turns out, has been greatly exaggerated. Last year the office equipment industry sold an estimated $767 million worth of electronic typewriters. "And there's going to be a huge market in the future for them," says Jack Hiatt, director of business planning for AES Data Corp., whose Canadian parent boasts the third-largest installed base of word processors in the U.S. "In some cases it can do everything an office needs."

To be sure, the typewriter is changing. This year, sales of electronic typewriters are expected to surpass ordinary electric models like the Selectric for the first time, whereas only two years ago electrics were able to outsell electronic models 4-to-1. It's easy to see why. An Olympia electronic typewriter has some 3,000 fewer moving parts than an electric version. But the typewriter is still there.

What's the lesson? Simply that "the whole world doesn't change overnight," says Dean Scheff, chief executive of Minnesota-based CPT Corp., one of the leading makers of word processing equipment. "Change comes relatively slowly." Despite all the hoopla over the office of the future, many office managers aren't yet ready to pull thousands of dollars' worth of coaxial cable through their walls to set up state-of-the-art computerized systems.

There's more than a little irony in this for many of the old-line, traditional office equipment companies, manufacturers of such products as copiers and mailroom and dictation equipment. Many rushed to move into the "glamour" areas of word processing and office automation, fearful they would become dinosaurs. Predictably, most of their ventures have failed.

AM International, of course, is the classic case. It embraced electronic communications systems and word processors, only to roll up huge losses that led to its filing for Chapter 11 in 1982. But even much sounder companies have had their troubles. The only noncopier product in Xerox' lineup for automated office systems—started back in 1979—that can be called an unqualified success is its electronic typewriters. And A.B. Dick Co.'s office products division has made so little impact on the market that analysts think its parent, Britain's General Electric Co., should drop the ax.

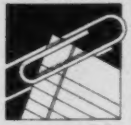


Typewriters for sale
The whole world doesn't change overnight.

Pitney Bowes bowed out of the same business in October, taking a $22.5 million aftertax writeoff, after its word processing business lost $10.6 million on $34 million in sales in 1982.

But is Pitney Bowes in danger because it failed in word processing and its stronghold in the mailroom equipment market is threatened by electronic mail and data transmission? Not necessarily. "We see mail growing as rapidly as any other part of our business," maintains Tom McGarry, a PB vice president. The company still maintains a dominant position in a $1.5 billion market for mail equipment with annual growth rates of 15%. "I remember that we were criticized a few years ago at an analysts' meeting for not getting into the hand calculator business," says McGarry. "I really don't know what we lost for not being there."

Indeed, all the while it was taking its flyer in the glamorous stuff, the company never lost faith in its basic businesses. Rather, it leveraged its strength in them to spur



continual growth. The financial services business it launched in 1977, mainly to support its traditional office equipment products, now accounts for almost a quarter of PB's earnings. It's no coincidence that the most profitable company on Forbes' office equipment rankings (Pitney Bowes is second) is Comdisco, Inc., an Illinois-based firm that arranges the leasing and finances the purchase of IBM computers. (The tables don't show companies like Apple, Wang, IBM and Digital Equipment, even though they may be the dominating companies in this industry today. See computer industry survey and rankings, beginning on p. 180.)

While Pitney Bowes is finding that the basics are serving it well, so is Canada-based $1.9 billion (sales) Moore Corp., the largest business forms producer in the world. You would think the future of any company producing paper and business forms might be less than rosy given the advent of the computer and the so-called paperless society. Judson W. Sinclair, Moore's chief executive, has discovered the opposite. He has happily found that the growth of small and large computers is increasing the dollar volume of orders for Moore's forms three times as fast as they are being eroded by competing new technologies. Why? "The automation of data doesn't do away with hard copy," says Sinclair. "Much of the data from computers was never available before. If the computers eliminate paper in one place, they seem to create more of it in another."

Meanwhile—just as with Pitney Bowes and A.B. Dick—success still eludes Moore Business Systems division, the company's most visible effort to move into the office of the future by selling information systems to small business. For five consecutive years since its start in 1978, the operation has been in the red.

And now, surprisingly, the word processor itself—the very invention that was to make paper and typewriters artifacts of the past—is threatened by personal computers. If you can buy a computer and do word processing on it, among numerous other functions, why bother with a word processor? John A. Murphy, vice president of Advanced Office Concepts, a consulting firm for office automation, notes that you can now buy an IBM PC and add a separate keyboard and quality word processing software package for at least $1,000 less than a basic word processing system.

This fact of life is forcing the word processing companies to build computer functions into their systems, so the distinction between the word processor and personal computer is increasingly blurred. Consider Lanier Business Products, a traditional office products company that, unlike most others, successfully diversified into word processing systems. Now, as a new subsidiary of Harris Corp., it finds it must make another crucial transition: into high-end office automation systems from the stand-alone word processing business.

Moral: Even a traditional office products company that has proved it can make the transition to high-tech products still isn't out of the woods. Sometimes it makes more sense to stick with what you know best and take your time about upgrading technology to meet the demands of the future. It doesn't get here overnight. ■

Office equipment and services

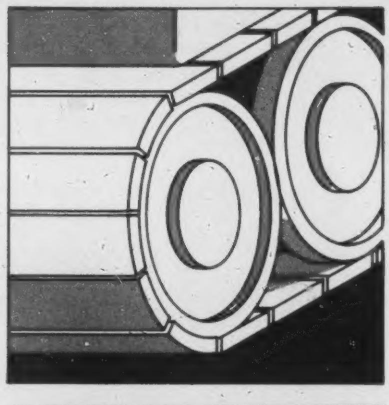
Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Office equipment												
Comdisco	1	40.8%	46.0%	0.7	1	23.0%	30.8%	9.5%	1	33.5%	1	49.9%
Pitney Bowes	2	17.8	14.3	0.2	4	12.8	9.8	5.1	3	19.4	2	12.2
Moore Corp	3	16.8	13.5	0.1	2	14.1	11.9	5.5	6	9.6	3	7.0
Xerox	4	15.3	10.0	0.2	3	13.6	10.1	5.3	4	12.1	4	6.2
Bell & Howell	5	5.1	19.2	0.4	6	4.7	14.5	5.1	7	6.0	5	1.2
Savin	6	3.5	def	2.1	5	11.3	def	def	2	30.1	6	–20.0
Nashua	7	1.0	def	0.7	7	3.0	def	def	5	10.3	7	–35.0
AM International	8	def	NE	NE	8	def	12.7	0.5	8	3.3	8	P–D
Medians		**10.2**	**11.8**	**0.3**		**12.1**	**11.0**	**5.1**		**11.2**		**3.7**
Office services												
Allegheny Beverage	1	29.0%	35.3%	3.8	6	14.0%	10.2%	2.1%	1	27.5%	1	23.9%
Electronic Data Systems	2	26.4	27.4	0.1	2	23.0	22.7	9.4	2	25.1	4	17.5
Kelly Services	3	24.5	18.3	0.0	1	24.6	18.2	3.2	5	19.9	2	18.5
Computer Sciences	4	23.4	11.0	0.4	5	14.7	9.1	2.2	4	19.9	5	14.8
Purolator	5	20.5	21.9	0.5	4	15.1	15.6	3.9	7	14.4	6	14.0
Auto Data Processing	6	20.3	16.8	0.1	3	16.7	14.0	8.5	3	23.2	3	18.2
Parker Pen	7	11.3	def	0.2	7	11.3	def	def	6	16.5	7	–1.5
Medians		**23.4**	**18.3**	**0.2**		**15.1**	**14.0**	**3.2**		**19.9**		**17.5**
Industry medians		**17.8**	**14.3**	**0.2**		**14.0**	**11.9**	**3.9**		**19.4**		**12.2**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit. NE: negative equity.

The recession was almost the least of the problems in this troubled group of industries.

Construction, mining, rail equipment



By Barbara Rudolph

AFTER CLOSE TO 100 YEARS in the business, Harnischfeger decided several months ago to stop manufacturing cranes in the U.S. "We were banging our heads against the wall," says Harnischfeger President W.W. Goessel. Beginning in late 1985 Harnischfeger will be buying virtually all of its cranes from Japan's Kobe Steel, which currently owns 10% of Harnischfeger's stock.

Why did Harnischfeger, this proud old middle-western company, throw in the towel? What choice did it have? Only about $130 million worth of cranes were sold in the U.S. in 1983, as against about $700 million in 1981. Even when a pickup comes, a good guess is that by 1986 the total U.S. crane market will level off at only around $400 million. But that's not the worst of it: Into these shrinking markets the Japanese may be about to launch an invasion with their vaunted manufacturing efficiency and quality standards.

At the moment, there are virtually no Japanese cranes for sale in the U.S. market, but the prospect of the Japanese invasion probably helped persuade Harnischfeger to get out. The first onslaught is expected in the lower end of the market, telescoping or hydraulic cranes that lift less than 100 tons and account for about half the total market. "Sumitomo and Hitachi are coming, and when they do it will be a classic confrontation," says Robert Nassau, president of American Hoist & Derrick, which gets some 35% of its sales from cranes. With Harnischfeger no longer manufacturing in the U.S., Manitowoc, American Hoist, FMC and Grove are the only major U.S. manufacturers left. To prepare for the expected invasion, Ameri-

Construction, mining, rail equipment

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Heavy equipment												
Joy Manufacturing	1	13.3%	0.6%	0.1	1	11.5%	1.0%	0.5%	1	8.7%	1	6.2%
Hyster	2	11.1	0.1	0.2	2	9.6	0.5	0.0	6	5.0	2	2.2
Caterpillar Tractor	3	6.5	def	0.7	3	6.6	def	def	2	6.1	4	–14.3
Bucyrus-Erie	4	5.9	def	0.4	4	5.8	def	def	3	5.6	3	–13.6
Clark Equipment	5	2.4	3.1	0.3	6	2.6	3.8	1.6	8	–1.2	5	–31.1
Amer Hoist & Derrick	6	1.6	def	0.6	5	2.7	def	def	5	5.2	6	–36.0
Harnischfeger	7	def	def	0.9	8	def	def	def	4	5.3	7	P–D
Pettibone	8	def	def	2.5	7	def	def	def	7	4.3	7	P–D
Medians		4.2	def	0.5		4.3	def	def		5.3		–22.7
Rail equipment												
Amsted Industries	1	13.1%	def	0.0	1	12.7%	def	def	4	6.5%	2	3.0%
GATX	2	10.4	4.3%	1.5	4	5.3	3.9%	2.5%	3	6.9	1	6.7
ACF Industries	3	9.8	0.2	0.7	3	6.2	2.4	def	5	5.8	3	–0.2
Ampco-Pittsburgh	4	7.9	def	1.2	2	9.8	1.7	def	2	22.8	4	–0.6
Tiger International	5	def	def	4.8	5	1.5	def	def	1	23.8	5	P–D
Medians		9.8	def	1.2		6.2	1.7	def		6.9		–0.2
Industry medians		6.5	def	0.7		5.8	def	def		5.8		–13.6
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.

can Hoist says it will be bolstering its entire crane line. It recently developed a model that can lift up to 1,000 tons (the prior limit was 450 tons) for use in offshore drilling.

More important, American Hoist, like everyone else, has been aggressively cutting costs. Over the past year and a half, the company's employment fell from 7,200 to 3,700. Plant capacity is down by a third. Will that be enough? Never more than average in profitability, American Hoist plainly should be worried about its future.

In these heavy equipment markets, the derrickmakers are not alone in adversity. "We have to acknowledge that the good times of the late 1970s were the freaks. Normal times will probably be harsh times," says Joy Manufacturing President A.W. Calder *(see box, p. 192)*.

Manufacturers of heavy equipment are getting used to adversity. "The good times of the late 1970s were the freaks. Normal times will be harsh times," says Joy Manufacturing President A.W. Calder.

Is it little wonder that well-managed Caterpillar took a long, messy strike to try holding down manufacturing costs? Cat has also put pressure on its suppliers to lower their prices. One longtime supplier, Wyman Gordon, already has lost "quite a lot of business," says a company spokesman. Most of it went to German and Japanese companies, including Sumitomo and Gerlach, though Wyman has had it for years.

Caterpillar remains the leader in earth-moving equipment—with a 35% share of the $17 billion worldwide market. But a series of setbacks, some more avoidable than others, has left the company weaker than it has been in many years. First there was the ill-timed and ill-advised acquisition of the solar turbine division of International Harvester in 1982. This cost the company $500 million and helped weaken its once strong balance sheet to the point where by 1983 debt was nearly 40% of capital. Then, in 1982, the trade sanctions Washington imposed against the Soviet Union in the wake of the Polish crisis meant that the company lost out on selling at least $500 million worth of equipment for the Soviet pipeline, analysts estimate. Finally, the recession was

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Riding out the storm

Will those order books for capital goods products ever fatten again? "Well," sighs Joy Manufacturing's chief executive A.W. (Bill) Calder, "it looks as though bookings have hit bottom. There is a twitter of a pickup here and there, but I sure am reluctant to call it a sustained recovery. Still, at least orders aren't dropping."

It's that kind of healthy skepticism—realism nearly always triumphing over optimism—that makes Joy, a manufacturer of mining and oil services equipment, one of the industry's leaders in profitability in the Forbes Yardsticks.

Joy's trademark has been its clean balance sheet. Today the company is sitting on about $200 million in cash and is shopping around for an acquisition. An acquisition, mind you, not a diversification. Says Calder: "We don't want to be yet another company that has gone into a new business only to have it turn into a disaster." So he's looking at acquisitions in compressors, mining, oil or air pollution control groups, his core businesses. He's also pruning. In the past year Calder has dumped his rotary drill division and certain compressor lines. As for that cash hoard, he's going to spend it carefully. He says, "We can take care of that $200 million real quick, but badly, and then it will be the next generations at Joy who will have to slave to get it back."—**B.R.**

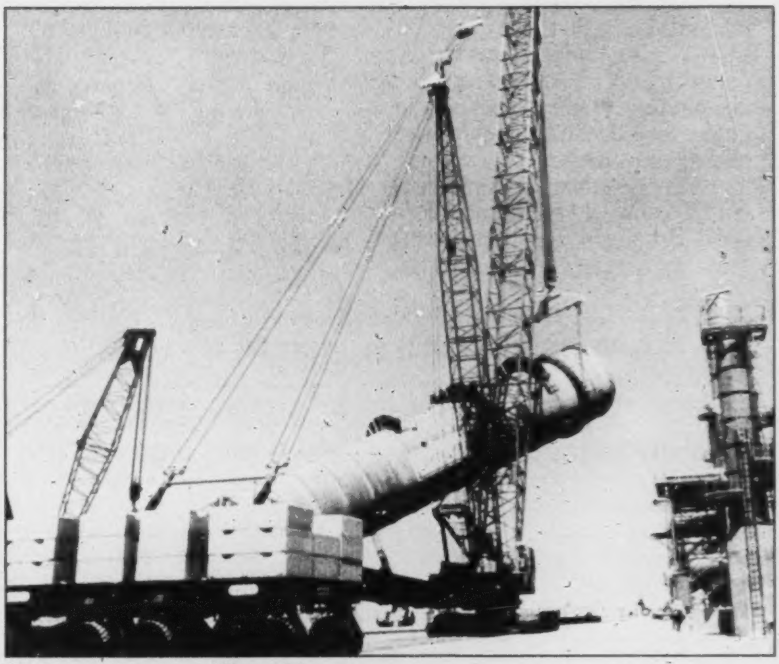
longer and deeper than the company had anticipated it would be.

But Cat's biggest threat comes from a company whose name does not appear among FORBES' list of competitors. That company is Komatsu, another Japanese manufacturer. Its share of the $6 billion U.S. earth-moving machinery market has jumped from 2% to about 5% over the past five years, as the company has broadened its line of earth-moving equipment. Komatsu's prices worldwide can be as much as 25% below Caterpillar's, thanks to the strength of the dollar, which can buy even more yen-denominated goods than it could last year.

Caterpillar is certainly a survivor: Chances are both Cat and Komatsu will gain market share at the expense of companies with less clout in the market like American Standard's Wabco or Dresser's International-Howe. One recent casualty: The Terex subsidiary of IBH Holdings filed for Chapter 11 in November.

Even without pressure from the Japanese, a similar shakeout is taking place in the railcar industry, the most depressed of all heavy machinery groups. Not since the Thirties has demand been so weak. Deliveries of railcars in 1983 might hit 5,700, down from the peak of 90,000 in 1979. With economic recovery, they might hit 10,000 in 1984, not much of an improvement in an industry operating at only 10% of capacity. Not until the late 1980s does the industry have a chance of seeing demand reach 50,000 railcars a year.

"A shakeout is coming, but everyone is saying, 'Please, God, not me,'" GATX executive James Goff told FORBES in 1982. This past year it turned out to include him, as GATX announced in October that it was closing, among other things, its railcar manufacturing group.



American Hoist crane lifts 1,000 tons
Dead ahead, a "classic confrontation."

Elsewhere in the railcar equipment industry there have been several plant closings as well. Midland-Ross, for example, closed its Sharon, Pa. plant, eliminating one-third of the company's capacity to make railcar castings. Richmond Tank Car this past year filed for protection under Chapter 11 for its railcar leasing division. And there are undoubtedly many plants that are now "temporarily" shuttered which will never reopen.

Nor is all this just the shuttering of obsolescent capacity. There was widespread expansion in the late 1970s—partly because boxcars were popular tax shelters—so a lot of factories are new and have not been fully depreciated yet.

With so bleak a prognosis for the railcar group, why then is profitable little Trinity Industries (ranked in the specialty section of the industrial equipment industry on page 194) actually expanding its presence in the business? Why in October did the company agree to pay $15 million to buy the Pullman railcar plants, with a capacity of some 20,000 cars a year, and Pullman's proprietary railcar designs as well?

The answer is quite simple: labor costs. Trinity is no sweatshop operator, but with its nonunion plants Trinity is not handcuffed by restrictive union rules. Cast in that light, the industry's efforts to reduce its labor costs look less like union-busting and more like a desperate effort to preserve jobs. ■

The U.S. machine tool industry is finally seeing daylight. Will 1984 be the turnaround year?

Industrial equipment and services

By Jill Bettner

THE DEMAND OUGHT TO BE there. U.S. plant and equipment is among the oldest, on average, in the industrialized world, and has been for decades. For producers of industrial equipment, still languishing in the worst depression the industry has seen since the Thirties, the questions are when that demand will finally materialize and who will supply it. Last year all but four of the companies listed here had lower profitability than their historical averages, and median profitability declined by 53%.

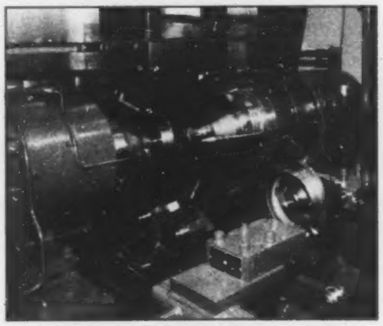
As 1983 drew to a close, machine tool orders were up significantly. But the increases were on such a small base of continuing business, and there had been so many false starts, that industry leaders were still wary. "We see enough light in the general industrial area to be optimistic," says Ingersoll-Rand CEO Thomas Holmes. "When you have been optimistic too long on one side, the tendency is to be pessimistic too long on the other side."

Certainly no one was predicting a rebound any time soon in farm equipment, heavy machinery for the depressed steel and oil services industries and mining. But they were heartened by the pickup in orders for transfer lines, numerically controlled milling machines and machining centers from auto producers and other consumer-related manufacturers.

Says automotive supplier Eagle-Picher CEO Thomas Petry: "Nineteen eighty-four will be a very strong year for us." Orders for numerically controlled machine tool components such as bearings and castings are up sharply, though Petry's backlog of heavy machinery, including orders for earth-movers and oil drilling equipment, is about the same as a year ago.

Now, nobody is forecasting a return to anything near the machine tool industry's record $5 billion order backlog before the bottom fell out of capital spending in 1981. After all, machine tool orders for all of 1983 were only $2 billion. But that was a 33% improvement over last year. "There are signs that demand for machine tools is getting healthier. The question is, where are they going to come from?" asks Jim Gray, president of the National Machine Tool Builders' Association.

Japan is the fear, of course. It continued to build up stockpiles of unsold tools, primarily numerically controlled machining centers and lathes, in U.S. warehouses, even as demand steadily declined. Domestic producers say those inventories still haven't been worked off, even at steep discounts. "They reduced prices to move product, but not very successfully," says Cross & Trecker CEO Richard Lindgren. Jim Geier, chief executive of Cincinnati Milacron, believes a large number of Japanese machines sold in the past two years have been returned unpaid for.



Orders for new machine tools are up
Will Detroit lead a real recovery?

Domestic producers say they are as hungry as the Japanese, however, and just as efficient. Not surprisingly, perhaps, those companies at the bottom of the Forbes Industry Yardsticks have been cutting costs most decisively. Typical is Rexnord, which cut its dividend 63% last year and which has cut costs by closing plants and selling off sidelines. "We've got our break-even point down to about two-thirds of what it used to be," says Robert Krikorian. He expects a 1984 increase of between 7% and 8% in shipments of Rexnord's power transmissions, specialty gears and fasteners. But things don't look as encouraging for its other two major businesses: process machinery for mining and materials handling equipment. "They will be pretty flat," he says.

Acme-Cleveland, which reported a $32 million loss for 1983, closed six plants and discontinued two small businesses in an effort to drive its break-even point down still further. One bright spot is that Acme-Cleveland's important automaker customers have placed some orders for manufacturing systems. "They're beginning to open up their purses," says Roy Kuhn, president of the newly formed Acme Technology Group.

Cross & Trecker's Lindgren thinks the worst is over for machine tools. "The industry has started to make its turn," he says. "The recovery is being driven partly by defense and aerospace as well as automotive. But the good news will have to get consistently better," Lindgren goes on. "Our order rate is up about 33%, but it's still running at about 50% of the prior peak." Nothing like Detroit's crash downsizing capital-spending program that put Cross & Trecker on top of the industry's Profitability Yardsticks is on the horizon. Currently, Lindgren is hoping that sales of sophisticated flexible manufacturing systems with multiple machining capabilities will get a boost from companies that recently migrated to the Sunbelt to save on labor costs. "They can't get that 50% reduction in wage costs with trained machinists in those plants," he says.

Among industrial service concerns, where there has been far less downward pressure on earnings in the latest 12-month numbers, still-sagging prices for steel and other commodities like copper remain a problem. For Anixter Bros., whose major market is the telecommunications industry, "1983 was a trying year," says CEO Alan Anixter, who reported a 36% decline in earnings for 1983, to $10.3 million. "But orders are growing toward respectable levels," Anixter says. The breakup of AT&T should mean more business for Anixter, which has built three new warehouses for telephone-related equipment in the past year because of the divestiture. "We've spent a fortune preparing for it." Last June his company and Cincinnati Bell announced the formation of Anixter-Cincinnati. The partnership will offer a complete line of electrical and electronic wire and cable, plus cable TV and telecommunications supplies and equipment.

But for most of the industry the market still looks dead. "Major capital spending still hasn't started to boom," says John Lux, chief executive of Ametek, Inc., the $424 million manufacturer of process equipment, electric motors and other components for consumer products. Although a strong resurgence in consumer spending and judicious cost-cutting enabled Lux to keep Ametek at the very top of the industry's Profitability Yardsticks, he remains skeptical about the recovery. "A lot of what we're doing for customers now is just replenishing their inventories," he says. Indeed, Lux split Ametek's stock 2-for-1 last July and diversified out of the business in August by buying a small plastic packaging materials company.

These uncertain prospects are, of course, what would be expected in an industry that typically lags a recovery. If anything, the upturn in machine tools is ahead of schedule. It usually doesn't start cooking until capacity use hits 80% and manufacturers can no longer afford to put off buying new capital equipment. Capacity use currently stands at about

Help!

About 38% of the machine tools installed in U.S. factories in the first six months of 1983 were built overseas. James Gray, president of the National Machine Tool Builders' Association, which compiled those statistics, is pessimistic about the future. He believes imported machines could go over 50% in 1984 for the first time. "And then it will just snowball." Gray, of course, has an ax to grind. He wants import quotas.

The Commerce Department has until Mar. 14 to recommend whether President Reagan should accept or reject a petition by the NMTBA to set a mandatory limitation on imports to 17.5% of U.S. consumption for five years.

Not every tool manufacturer is whimpering to Uncle for help. Robert Krikorian, chief executive of Rexnord, for one, doesn't want quotas. "I don't think it's the way to go," he says. "I can see other industries that are also facing very severe competition and need a little respite. But this world of ours isn't going to improve by putting up walls between countries."

But those who do favor import restrictions like to wrap themselves in the American flag. "This is a far more critical issue to the country than it is to the machine tool industry," says Richard Lindgren, president of Cross & Trecker, which makes numerically controlled machinery.

"Philosophically, we are all free traders. But the Japanese balance of trade is anything but free and fair," says Eagle-Picher Industries CEO Thomas Petry. His company makes components for heavy machine tools.

Funny, isn't it? Nearly everyone is for free trade except when immediate interests are threatened.—J.B.

Industrial equipment and services

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Production equipment												
Cross & Trecker	1	19.9%	1.7%	0.1	1	18.5%	1.9%	2.5%	2	12.7%	1	22.7%
Briggs & Stratton	2	17.5	8.9	0.0	2	16.9	8.3	4.1	5	11.1	5	5.3
Parker-Hannifin	3	15.4	7.9	0.3	3	12.8	6.9	3.4	1	16.5	4	6.8
Cincinnati Milacron	4	15.3	def	0.3	6	11.1	def	def	7	8.6	2	16.7
Harsco	5	13.3	7.1	0.3	5	11.2	6.4	3.2	6	9.9	6	3.3
Norton	6	13.2	4.9	0.3	4	11.3	5.0	2.4	4	11.7	3	7.0
Ingersoll-Rand	7	9.9	def	0.5	7	8.1	0.3	def	9	8.1	7	–2.7
Eagle-Picher Inds	8	9.5	5.5	0.3	8	8.0	5.2	2.4	11	5.7	8	–3.4
Midland-Ross	9	8.2	def	0.6	9	7.7	def	def	3	12.7	9	–4.6
Acme-Cleveland	10	5.9	def	0.3	10	5.0	def	def	8	8.4	10	–4.9
Chic Pneumatic Tool	11	def	def	0.7	11	3.0	def	def	10	7.4	11	P–D
Medians		13.2	1.7	0.3		11.1	1.9	2.4		9.9		3.3

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.

79% and isn't expected to reach 80% until mid-1984. "We're getting there," says Cincinnati Milacron's Geier, "but we have to be awfully careful."

The warning is well taken. Machine tool producers nowadays must cope not only with shorter cycles in their notoriously cyclical business but also with more rapid innovation as well.

That's why the industry is littered with recent casualties. "A lot of them didn't mind their business," Geier says. "You have to keep modernizing, keep R&D up."

Jim Geier learned that lesson the hard way. Cincinnati Milacron used to own the U.S. turret-lathe market until it woke up in the Seventies to discover that the Japanese had walked off with a big chunk of it. Like countless smaller U.S. machine tool builders, Cincinnati Milacron was forced to take the high ground in more specialized, and usually more sophisticated, machinery.

Small wonder, then, that despite Cincinnati Milacron's net loss for 1983, Geier continued investing in experimental manufacturing systems, including machines for use with a wide variety of synthetic materials like graphite-based composites. "With the sophistication of these new machines, it's becoming more and more difficult to keep up spending," he says.

Geier should be happy he can still afford it. A lot of his competitors aren't so fortunate. ■

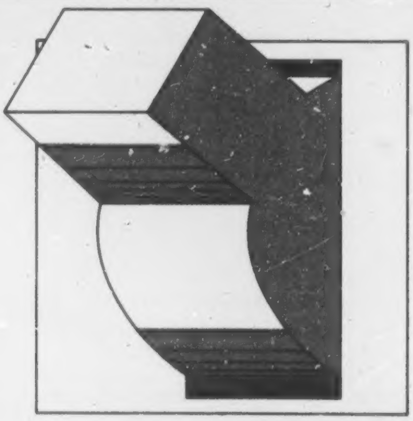
Industrial equipment and services

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Specialty equip, materials												
Trinity Industries	1	23.8%	7.0%	0.4	1	18.8%	6.6%	3.2%	3	18.6%	3	17.5%
Foster Wheeler	2	21.3	14.2	0.1	2	18.7	13.4	3.3	22	7.4	1	17.7
Ametek	3	20.1	19.4	0.3	6	14.6	14.2	7.3	16	9.8	12	10.2
Combustion Eng	4	19.8	13.6	0.1	10	12.9	9.8	3.8	12	11.9	4	17.0
Sundstrand	5	19.4	9.3	0.2	9	13.6	7.7	5.0	17	9.7	7	13.5
Cooper Industries	6	18.1	3.7	0.2	4	16.6	4.3	3.1	1	29.1	10	12.0
Harris Corp	7	17.6	9.0	0.3	13	12.7	6.7	3.9	4	18.3	2	17.6
Illinois Tool Works	8	17.3	15.7	0.0	3	16.7	14.7	10.1	15	10.6	9	12.3
Zurn Industries	9	16.9	12.1	0.2	14	12.6	9.4	5.0	24	7.2	5	14.9
Tyler	10	16.3	9.7	1.2	11	12.8	8.4	1.8	6	16.8	18	5.0
Emhart	11	16.1	16.6	0.3	8	13.8	12.7	4.9	8	14.3	16	6.2
Tecumseh Products	12	16.0	13.7	0.0	5	15.9	13.3	6.5	26	5.7	15	7.3
Avery International	13	15.4	15.7	0.6	17	11.5	11.8	3.9	11	12.2	6	14.8
General Signal	14	15.0	10.3	0.1	7	14.1	9.6	5.5	5	16.8	8	12.5
Stanadyne	15	14.7	11.5	0.2	15	12.1	9.4	4.9	20	8.4	17	6.0
Dennison Mfg	16	14.5	13.2	0.3	12	12.7	11.4	4.4	13	11.6	14	7.4
Ex-Cell-O	17	13.9	11.6	0.1	16	11.9	10.0	5.1	7	16.2	11	10.3
Foxboro	18	11.4	3.1	0.1	18	10.6	3.2	1.9	14	10.6	19	4.5
Stewart & Stevenson	19	10.7	6.9	0.5	19	8.7	5.7	2.2	9	13.4	20	−1.4
McDermott Intl	20	8.6	7.4	0.3	25	6.3	6.0	3.0	2	20.0	25	−9.2
Rexnord	21	8.4	2.4	0.4	22	7.7	3.1	1.1	19	8.6	24	−7.6
Research-Cottrell	22	8.3	4.2	0.3	20	8.2	4.7	1.3	10	12.5	13	8.9
Stewart-Warner	23	8.0	2.2	0.0	21	7.9	2.2	1.5	30	2.3	21	−5.0
UMC Industries	24	7.9	2.1	0.7	24	6.9	3.2	0.7	21	7.9	23	−6.8
Timken	25	7.7	def	0.0	23	7.2	def	def	25	6.0	22	−5.1
Dayco	26	6.5	1.8	1.3	26	5.0	2.9	0.4	23	7.3	26	−10.3
Amerace	27	5.5	def	0.4	27	4.4	def	def	28	3.5	27	−13.3
Peabody Intl	28	2.2	6.2	0.3	28	4.1††	5.5	1.7	18	8.8	28	−26.5
Allis-Chalmers	29	def	def	0.5	29	def	def	def	27	3.7	29	P–D
General Refractories	30	def	def	3.3	30	def	def	def	29	2.8	29	P–D
Medians		14.6	8.2	0.3		12.0	6.7	3.2		10.2		6.8
Industrial services												
PHH Group	1	23.7%	20.0%	2.6	6	6.6%	8.3%	6.1%	2	30.5%	4	21.7%
Waste Management	2	22.9	18.0	0.3	2	16.4	13.5	11.7	3	29.3	1	30.7
Anixter Bros	3	21.4	10.8	0.6	3	15.7	8.5	2.0	4	20.7	3	22.4
National Svc Inds	4	20.1	18.6	0.0	1	17.7	16.8	5.9	6	10.5	5	16.5
Browning-Ferris Inds	5	20.0	21.5	0.3	4	13.7	16.1	9.3	5	15.9	2	23.0
Gelco	6	17.9	def	6.7	5	8.4	4.6	def	1	36.8	6	13.1
Medians		20.8	18.3	0.5		14.7	11.0	6.0		25.0		22.1
Industry medians		15.0	7.1	0.3		11.5	6.4	3.0		10.6		7.0
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
††Three-year average. P–D: profit to deficit. def: deficit.

Producers of electrical machinery typically lag in a recovery, which is why most of them are so optimistic about 1984.



Electrical equipment

By Jill Bettner

LAST YEAR THE ECONOMIC recovery was fueled primarily by the consumer, with declining interest rates triggering a sharp uptick in housing starts. That normally doesn't have much effect on the electrical machinery business, so it's surprising the Yardstick companies were able to turn in as good a performance as they did. Their decline in median profitability for the latest 12 months was right in line with the all-industry numbers.

"We were very pleased we were able to sneak through this year," says Charles Knight, chief executive of Emerson Electric Co. Sneak through is right. The St. Louis-based electrical equipment manufacturer chalked up a $303 million profit for 1983, a razor-thin 1% increase over 1982, but enough to claim its 26th consecutive year of earnings growth. That was a significant accomplishment last year in an industry that was still waiting for the long-overdue upturn in capital spending.

The exceptions were few in the latest 12-month figures on the Profitability Yardsticks below. The only two companies to show gains were the temperature control companies—Robertshaw and Johnson—both of which benefited from the comeback in housing, the boom in major appliances and the rebound in auto sales. For most other Yardstick companies, the recovery is still on the horizon. Hard hit by losses in Brazil and barely breaking even on the sale of transmission and power-generating equipment to utilities (and process equipment to the petrochemical industry), Chicago's McGraw-Edison stumbled on its Yardstick Profitability rankings for the latest 12 months. But a sharp recovery could come this year. Both the industrial and commercial markets for its compressors and transformers are likely to improve.

Earnings on the sale of General Signal's industrial instrumentation and control systems fell about 20% last year, the second consecutive decline. "But we're seeing some momentum now," says CEO Nathan Owen. "Nineteen eighty-four? I feel good about it."

Like most electrical equipment manufacturers, General Signal, not on the Forbes list, has diversified to less-

Electrical equipment

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Tyco Laboratories	1	26.5%	13.2%	0.6	8	14.5%	8.9%	3.4%	1	31.2%	2	21.6%
Emerson Electric	2	21.0	19.5	0.1	1	19.7	17.9	8.7	5	15.4	5	13.2
General Electric	3	20.3	19.4	0.1	2	18.3	17.7	7.3	10	9.9	8	12.0
Square D	3	20.3	12.5	0.2	5	16.6	10.6	5.6	8	12.9	10	8.1
National Svc Inds	5	20.1	18.6	0.0	3	17.7	16.8	5.9	9	10.5	3	16.5
W W Grainger	6	17.7	13.4	0.1	4	17.2	12.4	5.9	7	13.5	6	12.6
Raychem	7	17.2	10.8	0.1	7	15.7	9.8	5.1	3	23.5	1	22.9
Harvey Hubbell	8	17.2	14.0	0.0	6	16.2	13.2	7.8	6	14.9	7	12.2
Westinghouse Electric	9	15.4	12.8	0.2	9	13.7	12.1	4.3	11	7.8	4	15.5
Johnson Controls	10	14.6	15.3	0.3	10	11.6	12.3	4.5	2	25.4	9	11.9
McGraw-Edison	11	11.2	6.8	0.7	11	10.0	6.4	1.9	4	15.8	12	4.8
Robertshaw Controls	12	8.8	11.8	0.4	12	7.3	9.5	3.6	12	7.3	11	5.3
Industry medians		17.5	13.3	0.2		16.0	12.2	5.4		14.2		12.4
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.

en its dependence on utilities and nonresidential construction. With both those traditional markets still soft, Owen is glad he did. His emphasis has been on semiconductor processing and on telecommunications. He made no fewer than nine acquisitions in those industries last year and plans more. "I believe in 1984 we'll be back up to a new earnings record or close to it," Owen declares. "By 1985 we'll really look like heroes."

National Service Industries CEO Erwin Zaban is confident that industrial lighting, one of the old electrical equipment mainstays, is poised for a rebound. "We're seeing some improvement already," he says, though big gains typically lag the building recovery by six to eight months. "In 1984 we're looking for lighting to be a real plus," he says.

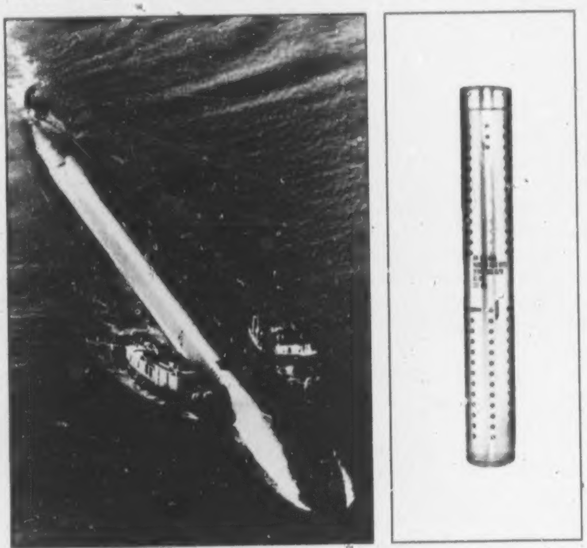
Knight agrees. "We're looking for a recovery in all of our capital-goods-related businesses, including process controls, motors and drives, professional tools and nonresidential construction products. If those businesses come up to the present level of consumer activity, 1984 is going to be a good year."

But Emerson hasn't been idly sitting by waiting for that recovery. Knight has taken advantage of the downturn to build in some new efficiencies. Early last year he consolidated operations involving 17 plants at a cost of nearly $20 million. Those moves, he says, should save Emerson about $35 million annually.

Fred Dusto, chief executive of Harvey Hubbell, Inc., expects the pickup in low-voltage wiring devices, triggered last year by the upturn in housing starts, to spill over this year into his main commercial and industrial markets. But he isn't expecting a change in the fortunes of some important customers. "Steel, coal mining and utilities will be down or flat," he says. Hubbell closed two of its Canadian plants last year because of a continuing decline in demand from Canadian utilities for its electrical porcelain products.

Less diversified than most other electrical equipment makers and burdened with problems in Mexico, Square D reported its second consecutive earnings decline last year, reversing several years of strong growth. Square D's circuit breakers and other power distribution and control devices encountered declining sales and considerable price erosion because of weak nonresidential construction markets. President Robert King now says he's "cautiously optimistic about a broad construction recovery," although that is not likely to include the key utility segment.

But in 1983 Square D increased its emphasis on electronics with its purchase of Topaz, Inc. Topaz makes devices that protect computers from power disturbances—a field King thinks quite promising. "On one side, industry is trying to improve its efficiency, and on the other side, utilities are pressing their systems to get more out of them," he says. "We benefit both ways."


Sparton Corp.'s sonobuoys (inset) *track foreign subs*
Razorblade electronics.

Johnson Controls finished fiscal 1983 in September with record earnings of $59 million, thanks to strong sales of auto batteries. But orders for industrial facilities management systems for monitoring fire safety and security as well as energy use are also improving, says CEO Fred Brengel. "Very few industries won't be better off in 1984 than they were in 1983, though you can't quantify how much better," he says.

Stepped-up defense orders in 1983 were a boon to several companies, including Emerson, General Electric, Westinghouse and Sparton Corp. The Jackson, Mich.-based Sparton, also not on the Forbes list, gets about 56% of its sales from defense electronics products like sonobuoys, which are used by the Navy to track foreign submarines. The devices last only about two hours before they sink and have to be replaced, so it's a nice razorblade business for Sparton. A 15% increase in demand for them last year helped boost Sparton's sales 19%, to $142 million. "Russian subs are a threat 365 days a year," says Sparton CEO John Smith. His company is also a major supplier of auto horns to such customers as General Motors and Chrysler.

Yardstick-topping Tyco Laboratories got much of its growth by acquiring and turning around troubled companies. Its growth has also come from capital gains from abortive takeover attempts such as its $22 million profit on the sale of its 30% investment in Cutler Hammer in 1978. But the company may be changing direction.

Following the death of former Tyco Chairman and CEO Joseph Gaziano a little more than a year ago, new CEO John Fort sold Tyco's 503,000 shares of Allied Corp.'s $12 cumulative preferred stock for $54.3 million. He told FORBES he has also decided not to increase Tyco's 46% stake in Heinicke Instruments Co. or its 29% interest in Muirhead, Ltd., a British electronics company.

"For the short term at least, we're becoming more operations-minded than acquisitions-oriented," says Fort. Recently he has also sold some divisions of Tyco's Ludlow Corp. that were outside Ludlow's principal flexible-packaging business.

Tyco gets about 38% of its sales from sprinklers and other fire protection devices. Because they are among the last items to be installed in new buildings, "that business is going to be flat next year, near as we can tell," Fort says. But he is enthusiastic about prospects for his printed circuit boards, which are used by customers ranging from computer manufacturers to utilities. "It's the segment of our business that moves most with the general economy," says Fort, who likes what he sees ahead. "We're looking at very good growth, very good," he says. "Orders are up about 25% over last year. It's a very positive sign." ■

Here it happened. There really was a recovery. Well, anyway, the beginnings of one.

Building materials

By Barry Stavro

WE'VE HAD A PRETTY GOOD turnaround year. Some of us are sleeping a little better," says Joe Cordell, president and CEO of Jim Walter Corp.

Like any commodity business, the building materials industry is highly sensitive to volume because its plants have a great deal of operating leverage. So when housing starts, triggered by falling mortgage rates, leapt 59%, to 1.7 million, in 1983—a normal year, by more normal standards—much of the building materials business snapped right back.

Since it manufactures partially finished housing and various building materials, Jim Walter's earnings track housing starts like a shadow. After 1978, when housing starts hit a robust 2 million, Jim Walter's earnings hit a record $98 million in 1979. Then, as housing slumped (down to 1.07 million starts in 1982), so did Jim Walter's earnings ($6.1 million in 1982). In 1983 Jim Walter's profits jumped to $70.6 million, with its building products group enjoying a profit swing of $36 million.

This doesn't happen automatically, of course. Cordell had cut Jim Walter's overhead as much as possible, by trimming the work force by 16%, cutting short-term debt and reducing break-even for his building materials group to correlate to 1 million housing starts a year instead of 1.5 million. "We came out of this a much leaner and stronger company," Cordell says.

Gypsum wallboard is used for interior walls in new housing, and it's also a product used at a fairly early stage in construction. As a result, United States Gypsum Co., traditionally the performance leader in this market with a commanding 35% share in wallboard, saw its quarterly earnings per share in 1983 climb from 46 cents to 95 cents to $1.68 in the third quarter. For nine months USG's net income was up 83%. Along with it have come some of those inflationary price hikes Federal Reserve Chairman Paul Volcker is worrying about. Says Eugene Miller, USG's senior vice president for corporate planning: "Our wallboard plants are operating at 97% capacity. When the supply/demand equation gets close, it's an opportunity to regain eroded margins." USG's gypsum wallboard prices rose 20% in 1983. But USG has earned it, having spent $277 million in the past five years to boost its wallboard capacity 25% and having reduced break-even costs 30% in the past two years.

In 1983 1.7 million homes were built.
Half of the industry is back to normal.

Other companies that managed to hang on to dominant market share during the recession did well, too. Like Jim Walter, Owens-Corning Fiberglas showed a modest gain on the Profitability Yardsticks during the latest 12 months. With 60% of the capacity for fiberglass insulation, Owens-Corning was able to boost prices occasionally even in the bad years of 1981 and 1982. As demand recovered, Owens-Corning boosted prices on the rising sales volume. Its profits for 1983 should more than double 1982's $29.7 million.

Under the welcome protection of that price umbrella, even a weak contender in fiberglass like CertainTeed Corp., which lost $17 million in 1981 and 1982, turned in a nine-month profit in 1983 of $25 million. CertainTeed CEO Michel Besson credits heavy capital spending and strenuous efforts to increase productivity. "If you compare our 1978 output per employee," he says, "we're up 40% in fiberglass insulation."

Some portions of the industry were slow to feel the effects of an improved housing market. Take a look at the latest 12-month results for the lumber industry. Huge oversupply in plywood dampened prices. Limp overseas markets, combined with a trend to downsize new homes—thus requiring less wood—didn't help. Still, lumber demand and prices have picked up (spruce fir lumber prices per 1,000 square feet hit a low of $140 in late

1981, bounced back to $235 by mid-1983 and have since backed off again). For longtime industry profit-leader Weyerhaeuser, that boosted nine months' earnings 24%, to $135 million. But as Weyerhaeuser's sorry 3.4% return on equity for the latest 12 months attests, there is still a long way to go before the company, with its huge capital investment, is back on track.

In the long-suffering cement industry, most firms continued to sink like a stone. Lone Star Industries, the biggest producer in the country, had boasted on the cover of its 1982 annual report, "Lone Star is Ready." It seemingly had made all the right moves. It had kept maintenance spending up. It had taken advantage of acquisition opportunities over the past five years, tripling its annual capacity to 12.5 million tons. But for 1983 Lone Star will post a record loss of some $2 per share (vs. 5-cent earnings in 1982). Kaiser Cement will also lose about $1 a share.

Part of the cementmakers' problem

Building materials

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Lumber												
Willamette Inds	1	9.9%	5.5%	0.9	1	8.1%	4.7%	2.2%	2	11.1%	3	–4.2%
Weyerhaeuser	2	9.8	3.4	0.4	2	7.6	3.7	2.7	5	8.4	2	–3.1
Georgia-Pacific	3	8.5	2.0	0.6	5	5.9	2.4	0.7	1	11.4	5	–6.3
Boise Cascade	4	8.4	3.8	0.6	3	6.9	4.2	1.7	4	9.4	1	0.2
Champion Intl	5	8.2	3.5	0.5	4	6.0	3.4	1.7	6	6.0	6	–6.5
Louisiana-Pacific	6	6.5	2.7	0.2	7	4.6	2.1	1.9	3	10.8	4	–5.2
Southwest Forest Inds	7	1.7	def	1.1	6	5.5	0.5	def	7	5.7	7	–26.4
Medians		8.4	3.4	0.6		6.0	3.4	1.7		9.4		–5.2
Cement and gypsum												
United States Gypsum	1	13.2%	9.7%	0.1	1	9.8%	7.6%	4.5%	4	7.0%	1	10.1%
Moore McCormack Res	2	10.8	1.7	1.0	5	7.5	3.2	1.5	1	12.4	3	0.9
National Gypsum	3	10.4	7.8	0.4	2	8.1	6.4	3.5	3	7.9	2	6.1
Ideal Basic Inds	4	9.1	3.6	1.0	6	6.1	2.8	3.1	5	6.3	6	–4.6
Gifford-Hill	5	8.7	1.2	1.2	3	7.9	4.1	0.6	2	11.9	5	–0.3
Lone Star Industries	6	8.3	def	0.7	4	7.7	1.3	def	6	2.2	4	0.3
Medians		9.8	2.7	0.9		7.8	3.7	2.3		7.5		0.6
Building materials												
H H Robertson	1	18.7%	12.5%	0.1	1	15.2%	11.2%	3.4%	2	10.7%	2	19.4%
Vulcan Materials	2	18.6	10.2	0.2	2	13.6	8.0	5.9	4	9.7	5	10.8
PPG Industries	3	13.9	12.1	0.3	3	10.4	8.9	5.8	7	8.1	4	10.8
Ceco	4	11.8	9.1	0.2	4	9.7	7.6	2.6	5	9.2	3	16.8
Sherwin-Williams	5	11.4	15.2	0.5	6	7.7	10.7	2.7	3	10.2	1	19.8
DeSoto	6	10.8	13.9	0.2	5	9.0	11.5	4.9	15	3.2	6	8.7
SCM	7	9.2	3.0	0.5	7	7.2	3.4	0.9	10	6.3	7	3.8
Owens-Corning Fbrgls	8	8.8	9.8	0.5	8	7.2	7.3	2.5	1	14.2	9	–4.6
Armstrong World Inds	9	8.3	9.1	0.2	9	7.1	7.6	3.8	11	5.8	8	1.4
Jim Walter	9	8.3	10.2	1.0	10	6.1	6.8	3.5	8	7.9	10	–6.4
Crane	11	7.1	def	0.6	12	5.5	def	def	14	3.7	11	–13.1
Manville	12	3.3	9.4	0.5	13	4.3	6.8	5.6	6	9.0	12	–19.8
CertainTeed	13	0.6	8.2	0.4	14	2.8	7.1	2.8	12	5.2	14	–45.9
Evans Products	14	def	def	1.8	11	5.5	def	def	9	7.8	15	P–D
GAF	15	def	def	0.9	15	def	3.2	0.1	17	–5.0	15	P–D
Bird	16	def	def	0.7	16	def	def	def	13	3.7	15	P–D
Masonite		**	9.8	0.1		**	8.7	3.8	16	1.6‡	13	–22.7‡
Medians		8.6	9.4	0.5		7.2	7.3	2.8		7.8		–4.6
Building equipment												
Dover	1	25.2%	16.7%	0.1	1	22.3%	15.5%	7.5%	1	18.4%	1	19.4%
Masco	2	21.6	16.9	0.7	2	12.9	11.4	9.5	2	15.9	2	13.5
American Standard	3	17.7	8.5	0.4	3	12.8	6.4	2.4	4	6.0	4	10.2
Trane	4	11.9	9.1	0.5	4	9.7	7.1	2.4	3	12.5	5	10.1
Scovill	5	10.4	12.9	0.7	5	8.3	9.8	3.2	5	5.4	3	10.3
Butler Manufacturing	6	9.2	def	0.2	6	8.2	0.2	def	6	5.0	6	–4.9
Medians		14.8	11.0	0.5		11.3	8.5	2.8		9.3		10.3
Industry medians		9.2	8.0	0.5		7.6	6.4	2.6		7.9		–0.1
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. def: deficit. **Not available; not ranked.

in 1983 was in the uneven nature, noted above, of the housing turnaround. In the first wave of a recovery in new housing, developers build on lots in existing housing divisions. Only in the second or third wave do new curbing, sidewalks or sewers, all requiring cement, have to go in. But housing provides only one-third of the cement industry's business. The other two-thirds are commercial construction and roads, bridges and other infrastructure needs.

Here, too, there was a lag in 1983. Office construction was soft through the first nine months, which helped keep prices down. And despite the much publicized need for better maintenance of the federal interstate highway system, spending on repairs has not increased dramatically.

Result: At 69 million tons in 1983, cement consumption was no higher than 1981 levels. "When you're running cement mills at 70% capacity, there is no way in the world you can make money," says Ted Baker, president of Florida Rock Industries, a smallish (estimated 1983 sales: $180 million) but profitable cement producer based in Jacksonville. Florida Rock's 1983 earnings should jump 25%. Why? Since cement is so heavy and costly to transport, it is primarily a regional business. Nearly 60% of Florida Rock's sales comes from a healthy Florida market, and it didn't hurt that 55% of 1983's housing starts were in the South. So Florida Rock operated at more than 80% of capacity in 1983.

Don't think Lone Star has abandoned hope simply because it ran in the red while most other building materials companies were rebounding nicely. "As modest as it was, 1983 saw the first year of recovery," says Carmine Muratore, Lone Star's executive vice president. "We think the next three to five years will be very good for our business."

Why? Well, cement prices actually turned up in the third quarter (Lone Star showed a narrow profit) with the first upticks in nonresidential spending, and Muratore expects public spending for the well-publicized infrastructure problems to pick up at long last. The Portland Cement Association expects cement consumption to pick up 10% in 1984, which would be enough to nudge most cement companies into the black.

Just how much pent-up demand for housing remains suppressed by still high mortgage rates can be seen in the outstanding gains in latest 12-month return on equity figures in the Yardsticks for consumer paint producers like DeSoto and Sherwin-Williams (or the Glidden division of SCM). Most of that fresh paint is going to cover old housing, not new.

The best news for the building materials industry is that even if housing starts are flat at around 1.7 million starts this year, as expected, this should be a better year for earnings because the number of housing completions will rise perhaps as much as 14%, from 1.38 million in 1983 to 1.6 million, according to the National Association of Home Builders. That's good news for companies whose products, such as roofing shingles or plumbing, are used in the later stages of housing construction.

Masco Corp., for example, the nation's leading faucetmaker (with 33% of the market), turned in an impressive 16.9% return on equity for the latest 12 months on the industry Yardsticks. Masco President Richard Manoogian says 1984 "should be a better year for us because faucets are among the last products to go into a home." Masco's nine-month 1983 earnings increased 27%, and analysts peg the company's 1984 earnings at $2.75 per share, up from $2 in 1983. Manoogian can afford to be optimistic, of course. He has his bases covered, with 60% of Masco's building products going not for new construction but to the rebounding replacement and remodeling market.

Another bright spot is the $30 billion do-it-yourself market, which has grown 13% a year since 1970.

The critical variable remains mortgage rates. As long as they go no higher than 13%—a reasonable prospect in this election year—building materials should continue to rebound.

The stock market has been expecting it. Many building materials stocks doubled during the 1982-83 market surge. While many fell back about 15%, they are still considered to be fully valued against their likely improved 1984 earnings. Most building material stocks move in anticipation of interest rate swings, not earnings. ■

The asbestos albatross

At last count some 26,000 lawsuits claiming death or injury related to the use of asbestos products have been filed in U.S. courts. Many of them are multiple suits against Jim Walter, Owens-Corning, GAF, Armstrong World Industries and, of course, Manville Corp., which sought shelter from all the unknowns of asbestos liability under the bankruptcy law. Estimates of the cost of settling those claims range wildly—anywhere from $1 billion to $15 billion. It's a judicial nightmare.

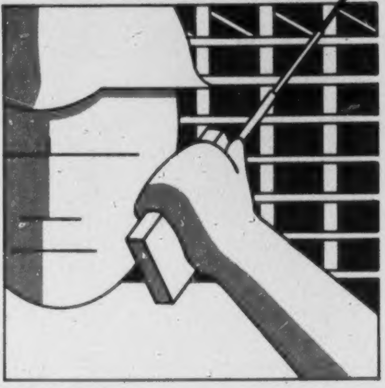
One bill in Congress to cope with the situation, introduced by Representative George Miller (D–Calif.), chairman of the Labor Standards subcommittee, would have the Labor Department act as the clearinghouse for asbestos claims. The purpose is not only to speed up adjudication but also to get more money to asbestos victims by eliminating the need for attorneys. This is certainly a worthy goal. Of the asbestos lawsuits that have been settled to date, a third of the total costs have gone for legal fees.

Under Miller's proposal, totally disabled victims would receive 80% of the national manufacturing average weekly wage on the date they first became disabled (in November 1983 that would amount to $280 per week), plus medical benefits. The money would come from a pool contributed to by asbestos manufacturers (and their insurers) and vary according to a company's asbestos "exposure."

James Kynes, Jim Walter Corp.'s senior vice president and legal counsel, has no quarrel with the basic concept of the bill. But he objects strongly to several wrinkles, including its omission of federal contributions, despite widely acknowledged asbestos-related injuries suffered by workers at Navy shipyards during World War II and Korea. Kynes also objects to the Miller bill's notion that it be a no-fault plan—that is, workers would need to prove only that they are disabled. (Currently, workers must prove negligence on the part of manufacturers in order to win their claim.) The no-fault provision, Kynes and others believe, could drive total costs for the program out of sight.

One thing is certain: The asbestos problem is not going away. A year ago Jim Walter faced 11,600 asbestos-related lawsuits. The company now faces 15,600 such suits.—B.S.

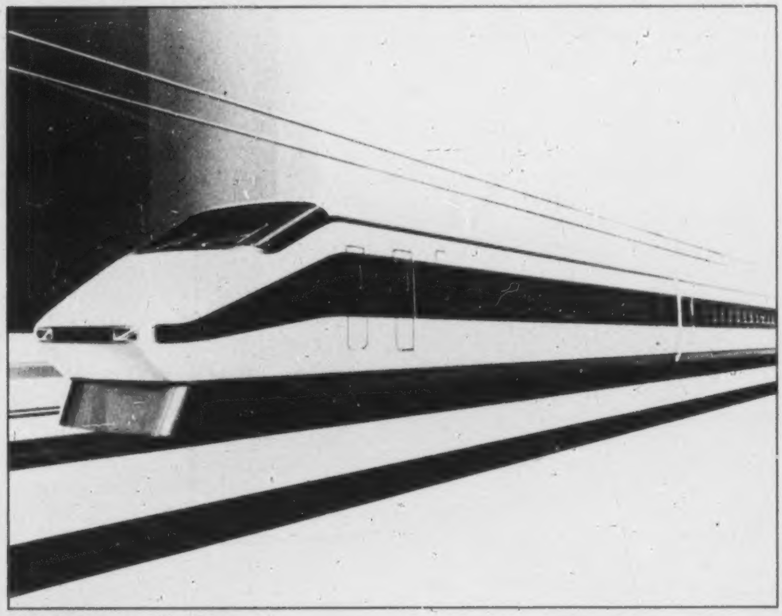
It took a lot of fancy footwork, but most of the big construction firms did pretty well in 1983.



Contractors

By Roger Neal

IN A RECESSION this industry noses over first and comes out last," says William McMurren, president of Boise-based Morrison-Knudsen. That's true so far as backlogs are concerned. But the manner in which McMurren and some of his competitors dealt with the problem was a subject for admiration in 1983. Construction was soft, both at home and abroad, and the once lucrative OPEC market has shrunk drastically. And yet, from a profits point of view, this industry came through the year remarkably well. The Yardsticks tell the tale. Order-starved contractors have actually kept pace with other industries in the recovering economy.



Fluor's proposed bullet train
High hopes for a new expertise.

How so? The better-managed companies have been simultaneously broadening their technological specializations and slashing costs.

Granted, this can't be accomplished overnight. If your specialty is large power plants, chemical plants and oil refineries, like Dravo, for example, or like Fluor, you're going to be hurting right now.

But most big contractors are currently earning close to their five-year return on equity, mainly because they diversified their customer base. The leading practitioner of this approach is Pasadena, Calif.-based Parsons. Parsons Chairman William Leonhard expects the company to post its 12th consecutive earnings increase in 1984. This is especially impressive given Parsons' high 25.3% return on equity in the latest 12 months—twice as good as the contractor industry median return on equity of only 12.5% in the same period and 12.6% for all industry. Parsons has earned that handsome return not just by diversifying, but by running a tight, low-overhead operation both in good years and in bad.

Though megaprojects are scarce, there are some small profitable niches in the industry that are looking better. Recent federal actions, for example, have provided a number of nuclear waste storage and cleanup projects like Morrison-Knudsen's uranium mine tailings cleanup contract, which could extend to 23 sites in half a dozen states. Another nice piece of business will be the $3 trillion that the Associated General Contractors of America says will be needed to renovate the nation's infrastructure—ports, highways, bridges and airports—over the next 18 years. Funded by the nickel-a-gallon gasoline tax surcharge that was passed in 1982, the states are likely to start spending that federal money this year.

Up until recently, small companies have taken advantage of these market segments because the national contractors had bigger fish to fry. Take little San Bernardino, Calif.-based Kasler Corp. (1983 revenues, $105 million). Kasler, a regional heavy construction company that deals primarily in civil engineering work for government—everything from highways to space shuttle launch facilities—has managed a five-year average return on equity of better than 30%. But with little else for the large firms to fall back on, competition for these small projects will be stiff.

Increasingly, large contractors are becoming generalists, and none has been more successful at it than Parsons. With jobs in such diverse fields as petroleum processing, nuclear waste storage, mass transit and defense, both in the U.S. and 34 foreign countries, Parsons can shift resources to wherever the work is, often bringing higher-powered talent and more financial muscle to bear on a project than competitors could offer. Parsons isn't held hostage by an ailing industry here or a politically unstable region there.

Take Morrison-Knudsen, a giant company whose solid 12.5% return on equity makes it another strong generalist. Says CEO McMurren: "Diversification by geography and discipline offers us great flexibility that many of our competitors simply don't have."

Others are trying to broaden their specialties. Fluor has high hopes for the proposed $1.25 billion bullet train between Los Angeles and San Diego. If funded, the project will help Fluor develop an expertise in mass transit.

Of course, 1983's surprisingly good profit showings were not achieved easily. Fluor counted on a $40 million capital gain from sale of an office building. Morrison-Knudsen had to cut back roughly 10% of its administrative staff. Fluor's 1977 acquisition of Daniel Construction, a nonunion company, has been a big help in holding down costs and getting additional business. Daniel now accounts for about 31% of backlog.

The large engineering and construction firms are also finding that an ability to help customers find money is a potent lure. When Standard Oil of California began work on its 47-megawatt geothermal project in California's Imperial Valley, it first approached Southern California Edison to see if it was interested in owning as well as operating the $125 million plant. Edison declined.

Dravo of Pittsburgh got the contract to build the plant by agreeing to take over the project when it was completed. Dravo could do so because, with its faster depreciation schedule and eligibility for a 15% energy tax credit not allowed utilities, it could arrange financing on more favorable terms than the California utility could.

Other contractors have concocted similar schemes or are contemplating doing so. Blount has been negotiating with Oyster Bay, N.Y. to build and finance a $100 million waste-to-energy facility.

Smallish ($70 million revenues) Ultrasystems (FORBES, *Oct. 24, 1983*) has an assortment of innovative projects that it builds and operates, such as its $35 million North Dakota barley-to-alcohol conversion plant. Leonhard of Parsons says, "We'll consider these projects in any field where we feel we have a technological advantage." That apparently includes mass transit: Parsons recently offered to finance and build part of the Houston metro. Unfortunately, the project was nixed by the voters.

But the builder-owner-operator solution does not appeal to everyone. McMurren of Morrison-Knudsen is one executive who doesn't like the idea. "We've historically avoided competing with our clients," he says. "I've heard a lot of talk about this, but it's not the salvation for a weak market." What is? In McMurren's opinion, salvation is in just what M-K has been doing: keeping costs under control and scraping around for small jobs. Not brilliant, just bright. And it seems to work. ■

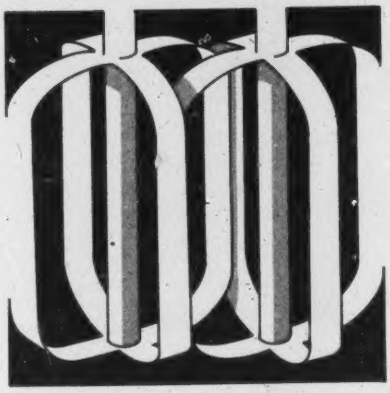
Contractors

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Heavy construction												
Parsons	1	27.5%	25.3%	0.1	1	24.2%	23.2%	4.6%	11	6.2%	4	19.5%
Turner Construction	2	24.8	25.4	0.6	2	21.4	17.4	0.6	4	20.5	2	21.8
Blount	3	20.2	21.7	0.5	6	13.1	14.9	2.5	7	13.5	6	16.3
CBI Industries	4	20.1	12.4	0.0	3	16.2	10.0	5.1	9	10.8	9	10.9
Fluor	5	18.4	5.6	0.6	4	14.7	5.5	1.7	2	26.0	8	12.4
Fischbach	6	16.7	17.0	0.4	5	13.3	13.3	1.9	8	12.0	7	12.7
Dynalectron	7	16.1	10.9	0.3	7	12.8	8.7	1.8	6	14.9	1	32.7
Morrison-Knudsen	8	15.6	12.5	0.4	8	12.6	8.6	1.8	5	17.7	5	16.4
Perini	9	13.6	14.2	0.2	9	10.9	9.7	1.5	3	22.1	3	20.5
Raymond Intl	10	9.6	9.9	0.4	10	8.7	9.1	1.0	1	26.3	10	–5.4
Dravo	11	2.7	def	0.4	11	4.4	def	def	10	8.6	11	–25.1
Medians		16.7	12.5	0.4		13.1	9.7	1.8		14.9		16.3
Home building												
Pulte Home	1	32.3%	49.1%	0.2	1	17.0%	26.1%	6.2%	1	33.3%	1	39.4%
Centex	2	18.3	13.6	0.2	3	8.3	8.3	4.5	3	14.7	2	19.3
U S Home	3	14.2	10.7	0.7	4	7.5	5.4	2.9	2	17.0	3	16.9
Ryan Homes	4	11.8	15.1	0.2	2	10.3	12.2	3.0	4	11.3	4	–0.8
Del E Webb	5	3.7	0.7	0.8	5	5.3	3.9	0.2	6	2.0	6	–13.5
Kaufman & Broad	6	1.7	0.9	0.9	6	3.0	4.0	1.0	5	6.3	5	–6.8
Medians		13.0	12.2	0.5		7.9	6.9	3.0		13.0		8.1
Industry medians		16.1	12.5	0.4		12.6	9.1	1.8		14.7		16.3
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
def: deficit.

You can let the washing machine leak only so long before you break down and buy a new one. That, in part, explains the surge of 1983. But what happens next?



Household goods

By Paul B. Brown

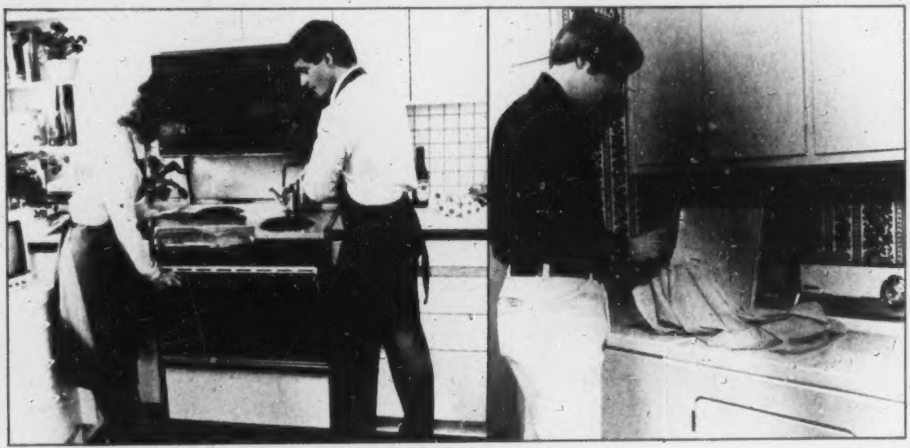
THESE ARE GOOD TIMES for the companies that make washing machines and stoves, bleaches and scouring powder. As William F. Andrews, chairman of Scovill Inc., puts it, "The baby boom is getting married, and the divorce rate is increasing." Divorce is good news? Sure, says Andrews: "One person takes the household, and the other has to go out and buy new appliances and furniture."

In short, while every marriage means a new household, every divorce does, too. And both are on the rise in the U.S. In 1962, if you had asked 1,000 people at random, you would have found 8, maybe 9, who had been married that year. In 1982 that number was close to 11, according to the National Center for Health Statistics. Divorces? In the last 20 years their number has nearly tripled. In 1982 there were 1.2 million divorces. That means more than 1 out of every 10 Americans have been divorced. These days the marriage often wears out before the refrigerator.

Even if it doesn't, of course, the refrigerator would have to be replaced, and that is good news for the household goods industry. The oldest members of the World War II baby boom bought their first appliances between 1969 and 1973—among the best years ever for appliance sales, according to statistics kept by Paul E. Roman, vice president of the Association of Home Appliance Manufacturers, the industry's trade group. They will soon have to replace those initial purchases, since the average life of a household appliance is anywhere from 11 to 15 years, and roughly 75% of sales in this industry are replacement.

Add to that the fact that through three years of recession, consumers, frightened of spending money, kept their old dishwashers, refrigerators and clothes dryers longer than they ordinarily would have. Now they are a little more sure they will have a job and are spending big to catch up. That's why 1983 kept getting better and better, and 1984, says Maytag Co. President Daniel J. Krumm, "should be a good, solid year." Krumm, whose company has led the Forbes Profitability rankings in household goods every year since 1974, mentions two other bright spots:

- New homes. That's where about 20% of industry sales comes from, and 1983's 1.7 million new housing starts were up 59% from 1982. They are expected to be strong again in 1984 *(see p. 199)*.
- Lower interest rates. "In this last quarter we had the highest order rate for household goods we have ever had," adds Scovill's Andrews, whose Hamilton Beach line of appliances, among other products, helped the company place sixth in the Forbes appliance category. "What mainly held people back early in 1983 was the question of whether or not they would have a job," Andrews says. "Now there is enough money out there, enough savings and a lot of pent-up demand."



A new stove and a new washer
You need them when you get married and divorced.

Not that 1984 will match 1983. Too much catching up has already been done. For example, Maytag's Krumm is predicting that industry sales of automatic washers, which climbed about 13.5% in 1983, will be up another 7% this year. Dryers, up 20% in 1983, should increase by 11.8%. Dishwashers, which cleaned up with 40% gains in 1983, should be up another 18.5% in 1984, he says. Electric range sales were up 40% in 1983 and should climb another 18% this year. Microwaves, the darling of the industry recently, were up 38.8% in 1983 and should be up 11.2% in 1984. "As you can see, we are expecting a flattening out this year, but overall it looks pretty good," Krumm says.

"Pretty good" is the operative phrase. This is a mature industry, no question about it. Unit sales have been growing at an average rate of 3.6% over the last two decades. That means once the pent-up demand has been satisfied, further growth for any company has to come out of somebody else's hide. One measure of that is that the industry has been steadily consolidating over the past ten years. Look at Forbes' 26th Annual Report on American Industry for 1974. There are now 20% fewer names in the lists below than there were then, with such famous ones as Westinghouse Electric and Admiral among the missing. The major appliance division of Westinghouse Electric was acquired by White Consolidated and Admiral is now a division of Magic Chef.

Along with consolidation came diversification of the survivors. Maytag is a good example. For years it manufacturered only washers, dryers and dishwashers. Now it has moved into stoves and ovens with the acquisitions of the Hardwick Stove Co. and gas and electric grillmaker Jenn-Air in 1981 and 1982, respectively. Clorox Co., which made only its well-known bleach when it was divested by Procter & Gamble in 1969 pursuant to an FTC order, now sells such products as Liquid-plumr, Kingsford barbecue products and Hidden Valley Ranch salad dressings. Chairman Calvin S. Hatch says there will be more acquisitions. "If I had my preference, I'd develop internal products successfully, but the key word is successfully. In the grocery business, you know how hard that is."

In fact, Clorox, which placed third in the housekeeping products division, is now moving beyond the supermarket shelf. In 1981 it acquired Olympic Stain Co., a leading maker of exterior stains and paints, and in July it acquired the U.S. rights to Lucite paints from Du Pont. Similar expansions, either through acquisition or home-grown products, are planned by Economics Laboratory (FORBES, *July 18, 1983*), American Home Products and Procter & Gamble. When it comes to growth, the computer business it's not. But these days, home sweet home is not bad, either. ■

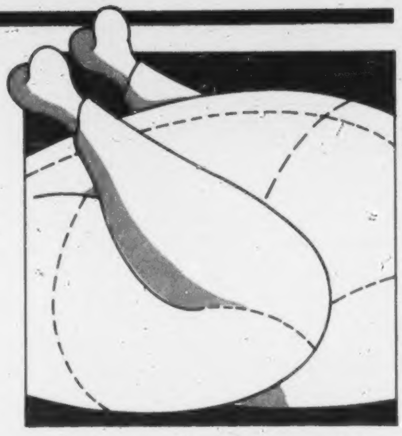
Household goods

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Appliances												
Maytag	1	23.7%	27.5%	0.1	1	22.1%	23.7%	9.5%	5	9.4%	5	6.2%
General Electric	2	20.3	19.4	0.1	2	18.3	17.7	7.3	3	9.9	1	12.0
Whirlpool	3	17.5	19.3	0.1	3	16.1	18.0	6.7	6	6.2	3	11.7
White Consolidated	4	11.7	8.5	0.4	5	8.5	7.2	2.3	4	9.4	8	–1.3
Magic Chef	5	10.6	18.5	0.4	4	8.9	13.3	3.9	1	20.2	2	11.9
Scovill	6	10.4	12.9	0.7	6	8.3	9.8	3.2	7	5.4	4	10.3
Allegheny Intl	7	8.8	def	0.8	7	7.7	2.9	def	2	14.1	6	1.8
Hoover	8	7.7	12.7	0.1	8	5.0	10.2	3.3	9	4.4	7	1.4
Zenith Radio	9	4.1	5.9	0.5	9	4.5	5.5	1.4	8	5.1	9	–10.3
Singer	10	def	0.1	0.7	10	1.7	3.0	0.2	10	2.7	10	D–D
Medians		10.5	12.8	0.4		8.4	10.0	3.3		7.8		4.0
Housewares, furnishings												
Insilco	1	14.1%	13.4%	0.4	2	9.2%	9.1%	4.9%	2	10.9%	3	6.3%
Stanley Works	2	13.9	11.2	0.2	1	11.8	9.7	4.7	4	10.3	2	9.1
Black & Decker	3	9.4	9.5	0.6	3	8.4	6.6	3.8	3	10.9	4	–2.3
Roper Corp	4	9.4	14.9	0.5	4	7.2	11.0	2.7	5	3.9	1	9.9
Mohasco	5	1.9	3.0	0.4	6	2.8	3.3	1.0	6	1.3	5	–19.8
Toro	6	def	1.4	0.6	5	4.8	4.8	0.8	1	13.0	6	P–D
Talley Industries	7	def	7.6	0.4	7	1.7	7.2	2.6	7	–3.0	6	P–D
Medians		9.4	9.5	0.4		7.2	7.2	2.7		10.3		–2.3
Housekeeping products												
American Home Products	1	33.9%	34.7%	0.0	1	33.4%	32.4%	12.7%	3	10.6%	1	12.5%
Procter & Gamble	2	19.7	20.1	0.2	3	15.4	15.7	7.0	2	11.3	2	11.8
Clorox	3	18.4	23.1	0.3	2	15.4	17.3	7.7	6	–2.0	3	9.7
Colgate-Palmolive	4	14.3	15.2	0.2	4	11.7	12.6	4.1	5	7.5	5	2.5
Economics Laboratory	5	12.3	def	0.4	5	10.1	def	def	1	13.0	6	1.7
Scott Paper	6	10.2	6.2	0.3	6	7.8	5.2	4.0	4	9.6	4	6.8
Medians		16.4	17.7	0.3		13.6	14.2	5.6		10.1		8.3
Industry medians		10.6	12.7	0.4		8.5	9.7	3.8		9.4		6.2
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. D–D: deficit to deficit. def: deficit.

In 1983 the government gave grain to farmers so they wouldn't plant as much. That plowed profits under for lots of companies.



Food processors

By Jeff Blyskal

SEVERAL MAJOR CHANGES in this industry in 1983 had their origins in Washington. Consider the payment-in-kind (PIK) program, which handed farmers excess government grain to sell, thereby reducing the incentive to plant. The idea was to reduce stockpiles. With the help of a record drought, the scheme was dramatically effective. The corn crop was off by 30%, and wheat output dropped 16%.

This raised prices accordingly and played havoc with many companies' bottom lines. Iowa-based Pioneer Hi-Bred International, Inc. derives 82% of sales and 99% of profits from seed corn in a normal year. In the vital matter of return on equity, it fell from number one among agricultural commodities companies to number three. PIK cut Pioneer's 25% ROE for 1982 almost in half.

Meatpacking plant in Texas

What's squeezing the meat companies?

High prices for farmers mean high raw-materials costs and pinched margins for grain processors like Archer Daniels Midland and A.E. Staley Manufacturing Co. That's a big reason ADM's return on equity dropped from 12.2% in 1982 to 8.5% in 1983. Staley's, meanwhile, fell from 12.6% to a sad 1.3% in the same period.

Thanks again to PIK and the steadily rising grain prices it spawned, grain merchandisers—including privately held companies not on our list, like Cargill and Continental—had only a fair year. "A volatile grain market helps the merchandising business," explains Charles (Mike) Harper, chairman of Omaha-based ConAgra. If farmers know low grain prices will be rising, they hold back supplies. "Merchandisers have been offering railcars and barges to move grain for practically no profit, just to keep them afloat or moving," says Rodney Cerny, an analyst at First Mid America in Lincoln, Nebr.

Because of today's high prices, many analysts are predicting a record corn crop next summer. Farmers' natural instincts are to take advantage of a strong market and plant as much as they can. This should benefit seed companies like Pioneer and DEKALB AgResearch Inc., as well as makers of agricultural inputs—chemicals, fertilizers, herbicides. ConAgra has a strong position in those markets. The company's chain of 70 United Agri Products outlets sells farm-related chemicals in 25 states. The company claims to have 15% of this highly fragmented market.

While food processors don't expect a PIK program for corn in 1984, they do expect some kind of PIK program for wheat. Why? PIK came too late in 1983 to affect greatly farmers who had already borrowed money and planted their winter wheat crop. In 1984 they will have a second chance.

Down the food chain, meanwhile, higher corn and feed prices are driving up the cost of raising hogs, cattle and chicken. But as the Yardsticks indicate, this doesn't affect all producers the same way. Tyson Foods, a major chicken producer, managed to top its five-year average for return on equity. So did Frederick & Herrud, a top pork producer. At the same time, most meatpackers posted results that were decidedly below average.

To understand why, a lesson in commodity cycles is necessary. When feed prices are low, costs decline and herd sizes increase. This sends more cattle to market, which reduces prices. Reduced prices spark consumption, which in turn starts pushing prices back up as demand equals supply. Farmers then increase their herds, and the process begins again. Because it takes at least two years for a cow to grow to market size, the production curve is seldom smooth.

Now, for example, there is an oversupply of red meat at high prices. But the PIK program is also driving up grain costs. So packers of fresh meat are in a squeeze. "Our costs are rising while prices are dropping," says John Copeland, chairman of Swift Independent Corp., whose 12-month ROE in 1983 fell 16 percentage points from an admirable 38% in 1982. SIPCO enjoys such high profitability in part because its assets were spun off from Esmark in 1981. That means balance sheet values are lower than those of most competitors.

Beefpackers, of course, don't operate in isolation. At some point consumers get their fill of expensive steaks, and demand shifts to pork and chicken. "With enough time, high grain prices are better for chicken than they are for other meats," explains Don Tyson, who runs Arkansas-based Tyson Foods.

That's because chickens require less feed. Thanks to breeding, better-controlled chicken farming and computer-formulated feeds, broilers grow to a bigger market weight faster (eight weeks) than they did 20 years ago. Result: It takes only two pounds of feed to produce one pound of chicken, half the conversion ratio of the Fifties.

Beef and pork producers are not so lucky, and progress is slow because of longer breeding cycles. Three-and-a-half pounds of feed go into a pound of pork and seven pounds into a pound of good steak on the hoof. Thus every penny rise in the price of feed widens the cost advantage of chicken and pork over beef.

That's why poultry consumption of 53 pounds per capita is almost double what it was back in 1960. Beef consumption is up only 24% over the same period. What about pork? Despite its relative cost advantage over beef, per capita consumption since 1960 is up an embarrassing 0.5%.

What with the vagaries of supply and demand, government intervention and the weather, food processing can be a very difficult business. But even in this environment smart managers can show their stuff. Look at Savannah Foods & Industries, Inc. It is a sugar cane refiner—one of the toughest of commodity businesses—and still manages to top its section of the Forbes Yardsticks.

Government price supports for U.S. beet sugar refiners. tariffs on imports of cane sugar and a resultant advantage for high-fructose corn syrup (HFCS) are all threatening Savannah's business. So how does the $440 million-a-year company post a top-drawer 26.2% five-year return on equity?

"We're probably the closest thing to a Japanese company that you can find," says President William Sprague Jr., who works hard to remain a low-cost producer. Savannah also shuns unions and keeps its workers on salary rather than hourly wage, using a substantial employee stock ownership plan as an added incentive. As a result, productivity was up 10% in 1983, and while other refiners are shutting down facilities, Savannah is running full out.

Savannah is also the dominant sugar company in the growing Southeast. There is little likelihood of competitors from outside the territory moving in because, as in the cement business, transportation cost is critical to sugar. Shipping it beyond a certain radius from the production facility is unprofitable. As a hedge for the future, Sprague is considering production of HFCS. Successful companies don't rest on their laurels.

What about the future of the rest of this industry? Agricultural input companies should benefit when farmers return to the soil. Lower grain prices in the latter half of 1984 ought to help grain processors and take pressure off meatpackers and poultry processors. Meatpackers, meanwhile, will get a boost from putting labor costs back in line. Above all, businesses that have been well managed in the past—like Savannah, Swift, Pioneer Hi-Bred and ConAgra—should adjust best to the future. ■

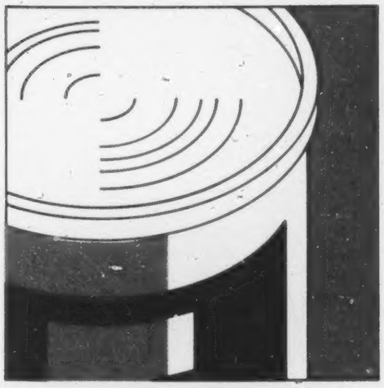
Food processors

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Meatpackers												
Swift Independent	1	28.1%††	22.1%	0.8	1	15.6%††	14.6%	0.8%	5	7.1%‡		**
Idle Wild Foods	2	15.8	7.5	0.3	2	12.6	6.5	0.7	4	10.0	6	8.7%
Tyson Foods	3	15.0	22.8	1.5	7	8.6	10.7	2.2	2	18.4	2	10.8
George A Hormel	4	14.2	9.9	0.3	3	11.8	6.9	1.7	6	5.4	3	10.4
Greyhound	5	14.0	10.3	0.4	4	10.2	8.5	3.6	7	2.5	4	9.8
Frederick & Herrud	6	13.3	20.7	1.0	5	9.3	12.4	0.9	3	12.3	5	9.4
Monfort of Colorado	7	12.8	30.6	0.3	6	9.1	20.7	1.2	1	19.9	1	19.0
Wilson Foods	8	def	def	1.0	8	def	def	def	9	1.8‡	7	P–D
Rath Packing	9	def	def	1.2	9	def	def	def	8	1.8	8	D–D
Medians		14.0	10.3	0.8		9.3	8.5	0.9		7.1		9.6
Agricultural commodities												
Savannah Foods	1	26.2%	35.1%	0.2	2	17.2%	25.4%	5.5%	7	5.7%	2	26.0%
ConAgra	2	23.9	19.8	0.7	3	16.6	15.5	2.1	1	20.3	1	28.7
Pioneer Hi-Bred Intl	3	23.6	13.1	0.1	1	20.5	12.2	8.7	2	15.8	3	15.5
Archer Daniels Midland	4	15.6	8.5	0.4	4	12.4	7.4	2.5	3	13.6	4	14.4
A E Staley Mfg	5	15.1	1.3	0.5	5	10.7	2.2	0.6	5	13.0	5	7.5
Kay	6	13.6	3.0	1.9	7	8.3	4.6	0.2	4	13.2	7	6.8
DEKALB AgResearch	7	10.2	3.5	0.2	9	7.5	2.3	2.4	6	11.0	9	–0.1
Anderson, Clayton	8	10.0	4.8	0.1	6	9.8	5.3	1.9	8	4.9	6	6.9
Central Soya	9	9.5	8.3	0.3	8	7.7	6.9	1.7	9	4.9	8	1.0
Medians		**15.1**	**8.3**	**0.3**		**10.7**	**6.9**	**2.1**		**13.0**		**7.5**
Industry medians		14.1	9.2	0.4		10.0	7.2	1.7		10.5		9.4
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
††Three-year average. ‡Four-year growth. P–D: profit to deficit. D–D: deficit to deficit. def: deficit.
**Not available; not ranked.

In one of the stablest of industries, there's a good amount of housecleaning and diversifying going on. It's already paying off at the dawn of what looks like a better year.



Branded foods

By Jeff Blyskal

IN A STORMY economic sea, here is an island of tranquility: Over the past 11 years and two (or three) recessions, the average annual return on equity for 22 of the diversified branded foods companies listed below ranged rather narrowly between 11.4% and 14.9%. For specialized food companies, the swings in ROE were somewhat more dramatic, between 12% and 18.4%. One glance down the latest 12-month results on the industry Profitability Yardsticks shows little change from five-year averages for most companies.

But there are exceptions. Chairman William Stiritz of Ralston Purina has been pruning the company decisively, and it shows: That 23.8% return on equity for the last 12 months, aided only modestly by stock repurchases, puts him just behind the Kellogg money machine in profitability. In contrast, limelight-loving Quaker Oats' abrupt drop in latest 12-month profitability traces to $62.5 million in writeoffs and losses in its chemical and videogame businesses.

Industrywide there are other developments. What appears to be a long-term trend that shows up clearly on the Forbes Yardsticks: From 1976 to 1978, median five-year returns on equity of specialized food companies ran close to 2 points above those of diversified companies. Since 1981, however, specialized branded food company profitability medians have been running under those of diversified food companies.

Hershey recognized the risks of specialists several years ago, which is part of the reason its results put it back in the number two position. In the commodity panics of 1973, when the price of cocoa beans rose, Hershey earnings dropped about 30% and chopped ROE to about 9%. So the drive since has been to diversify into other food areas, like Friendly Ice Cream restaurants and pasta products under the San Giorgio, Delmonico, P&R and Skinner labels.

Kellogg, too, has been branching out of the increasingly competitive slow-growth cereal market. Now nearly 25% of its sales are noncereal. Over the past decade or so it has put cornflake capital behind Mrs. Smith's frozen pies, Le Shake and Whitney's yogurts and Salada brand teas and foods. It hasn't been easy to come up with food products that are as lucrative as Corn Flakes, Rice Krispies or Sugar Frosted Flakes, although so far Kellogg has been faring remarkably well. However, an increased new product push at present would be costly and could temporarily dampen earnings growth.

Branded foods

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Diversified												
Esmark	1	25.1%	18.5%	0.6	6	14.8%	12.3%	3.5%	24	–5.5%	2	21.8%
ConAgra	2	23.9	19.8	0.7	2	16.6	15.5	2.1	1	20.3	1	28.7
Dean Foods	3	23.0	22.3	0.4	1	16.8	17.5	2.5	6	16.1	3	21.2
General Mills	4	19.4	20.8	0.4	4	15.0	16.1	4.6	10	12.5	7	14.0
H J Heinz	5	19.1	20.6	0.3	5	14.9	16.3	5.9	9	12.8	4	16.8
CPC International	6	18.9	16.1	0.2	3	15.2	13.1	5.3	16	7.5	10	11.2
Nabisco Brands	7	18.9	18.5	0.3	7	13.7	13.5	5.6	17	7.5	9	12.7
Curtice-Burns	8	18.2	19.2	2.4	19	8.8	8.0	1.6	3	18.3	11	10.4
Consolidated Foods	9	17.5	18.6	0.3	11	12.5	13.0	2.6	7	15.2	5	14.9
Pillsbury	10	17.2	16.0	0.6	14	11.4	11.2	3.9	4	18.3	8	13.0

Note: Explanation of Yardsticks calculations on page 38.

Back over in the diversified category, national brands like a Campbell soup, a bottle of Heinz ketchup or a Kraft Velveeta cheese loaf have a reputation for quality, compared to similar products, that protects them against price competition even in a downturn. "Through the recession, higher-end and quality branded products held up much better than commodity-type items," says James Dutt, chairman of Chicago's Beatrice Foods, who is leading a new marketing push after some major housecleaning. Beatrice's 2-point gain in return on equity in the latest 12 months puts it neck-and-neck with the Campbell Soup Co.

Esmark, the $3.3 billion conglomerate, 43% of whose sales come from such foods as Butterball turkeys, Sizzlean breakfast strips and Peter Pan peanut butter, finds itself at the top of our ranking for slightly artificial reasons. In 1980 Esmark sold its entire energy segment, consisting primarily of Vickers Petroleum and Vickers Energy, for a nonrecurring gain of $562 million.

If that extraordinary item were taken out of the results, Esmark's five-year average ROE would be more like 14.5%, ranking it below the median in the number 16 spot.

Such an adjustment would put ConAgra rightfully in the top spot with Dean Foods. Both are the industry standouts by a considerable margin, in part because they have plenty of strong regional brands and some newer national brands. ConAgra has gone for market share through acquisition, becoming an industry leader in flour milling, poultry processing, retail frozen foods with Banquet Foods, shrimp processing and the growing catfish aquaculture market. ConAgra, however, now has quite a mouthful with its latest acquisition, for which it paid $166 million, of Armour Foods' beef and pork processing facilities from Greyhound.

Dean Foods has been equally acquisitive in the dairy area, always paying close attention to such things as dropping customers who don't pay a decent price or who pay bills late, dropping unprofitable product lines like its herring business, trimming labor and pushing higher-profit items like yogurt, where margins run to 5%, vs. just 2% on milk. Annual per capita U.S. yogurt consumption has tripled since 1970 to 2.7 pounds in 1982.

Dean CEO Kenneth J. Douglas has also been lobbying Washington to reduce price supports resulting from government purchases of powdered milk, cheese and butter at prices that

Branded foods

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
General Foods	11	16.5%	15.8%	0.4	8	13.2%	11.6%	3.5%	13	10.0%	12	9.1%
Universal Foods	12	16.3	19.6	0.5	10	12.6	13.9	3.9	2	18.4	17	6.5
Campbell Soup	13	15.0	15.3	0.2	9	12.9	12.6	5.0	12	10.6	16	7.7
Dart & Kraft	14	14.9	15.6	0.2	12	12.4	13.0	4.5	15	7.9	14	7.8
Ralston Purina	15	14.8	23.8	0.4	15	10.9	16.9	5.3	19	7.0	18	5.7
Intl Multifoods	16	14.7	15.2	0.4	16	10.9	11.3	3.1	21	5.2	15	7.7
Beatrice Foods	17	13.1	15.3	0.4	17	10.6	11.8	3.5	14	9.8	19	3.3
Borden	18	12.8	13.3	0.3	18	9.5	9.9	4.3	22	4.6	13	8.3
Federal Co	19	12.8	12.8	0.2	13	11.5	11.6	2.2	8	13.5	21	2.3
IC Industries	20	8.3	4.6	0.8	21	5.5	4.2	1.6	5	16.5	20	3.1
Di Giorgio	21	8.0	5.4	1.0	20	6.2	4.8	0.7	20	5.9	6	14.3
Castle & Cooke	22	5.5	2.8	0.4	22	5.4	3.9	1.1	11	12.4	22	–12.8
Kane-Miller	23	2.3	def	0.7	23	3.3	def	def	23	–3.5	23	–21.9
United Brands	24	def	def	0.7	24	def	def	def	18	7.3	24	P–D
Medians		**15.7**	**15.9**	**0.4**		**12.0**	**12.1**	**3.5**		**10.3**		**8.7**
Specialized												
Kellogg	1	27.7%	27.6%	0.0	1	23.6%	25.2%	10.4%	7	10.1%	5	11.5%
Hershey Foods	2	19.5	17.6	0.3	3	14.6	12.9	5.6	1	18.3	2	13.7
Flowers Industries	3	19.0	18.9	0.4	6	12.9	13.3	3.7	2	15.3	3	12.9
Carnation	4	18.0	17.6	0.1	2	15.0	15.1	5.7	9	7.9	6	11.3
McCormick	5	15.7	16.1	0.4	7	12.6	13.3	4.1	3	15.3	7	11.0
Gerber Products	6	15.6	15.8	0.3	5	14.0	13.2	6.0	6	10.6	8	8.8
Quaker Oats	7	15.5	9.5	0.2	8	11.3	7.4	2.3	5	11.2	4	12.2
Wm Wrigley Jr	8	15.0	16.0	0.0	4	14.5	15.5	6.8	8	9.2	9	4.5
Amstar	9	12.8	7.8	0.1	9	9.7	6.5	2.4	12	3.9	10	3.1
Berkshire Hathaway	10	9.4	7.7	0.2	10	9.4	8.0	11.9	4	13.2	1	25.0
Amer Maize-Products	11	8.3	3.2	0.5	11	6.8	3.8	1.1	10	7.7	11	–2.6
Interstate Bakeries	12	def	def	1.7	12	1.1	def	def	11	6.1‡	12	P–D
American Bakeries	13	def	def	0.7	13	def	def	def	13	3.1	12	P–D
Medians		**15.5**	**15.8**	**0.3**		**12.6**	**12.9**	**4.1**		**10.1**		**11.0**
Industry medians		**15.5**	**15.8**	**0.4**		**12.4**	**12.3**	**3.5**		**10.1**		**9.1**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

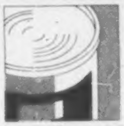
Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. def: deficit.

Tennessee Works.

Two centuries ago Tennesseans worked hard to carve a life out of some pretty tough wilderness. We've been working hard ever since, thanks to a frontier work ethic that's alive and well and still setting productivity records. And still making inroads, with programs like the state-funded Industrial Training Service which trains Tennesseans for specialized industry needs. Why does Tennessee invest that kind of time and money in attracting and keeping new business? Because when you get down to brass tacks, we're still a hard-working people looking for new frontiers that just need a little hard work to conquer. For more information, call or write Mike DuBois, Tennessee Department of Economic and Community Development, Andrew Jackson Bldg., Box 718, Nashville, TN 37219. 1-800-251-8594.

Tennessee

We get down to Brass Tacks.



have almost doubled since 1974. Per capita consumption of milk in the U.S. has declined 12% since 1970, and Douglas blames excessively high prices, along with increased competition in the beverage market.

The Reagan Administration has been holding the line on supports, but Congress late in 1983 refused to cut support prices and thereby eliminate a growing surplus of powdered milk, butter and cheese. Instead, in addition to buying surplus milk, the government will for the first time pay dairy farmers not to produce.

In general, however, there won't be much inflationary pressure from branded foods. Says Art Schulze, executive vice president for General Mills' grocery division: "You won't see serious food inflation. Increases should be somewhere in the area of 3% to 6%."

One exception could be grain-based products like cereal and bread because of tight corn supplies and a likely extension of the payment-in-kind program *(see p. 206)* for wheat. For that reason big grain users like Kellogg, Quaker Oats, Flowers Industries, American Bakeries and Interstate Bakeries could come under some cost pressures.

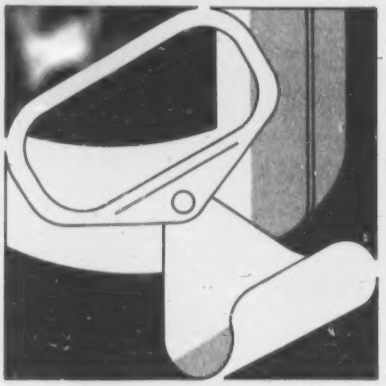
But premium, quality and convenience foods should benefit from an expected rise in discretionary income. So at Kellogg, grain pressures will likely be offset by frozen dessert gains. Frozen food areas like ConAgra's Banquet and Armour Dinner Classics entrees, Campbell's Swanson and Mrs. Paul's divisions, General Foods' Birds Eye, and General Mills' Gorton's seafoods should do well. Premium products like Kellogg's Whitney's yogurt, Beatrice Foods' Tropicana orange juice and General Foods' recently acquired Entenmann's baked goods should also benefit from the recovery.

Orange juice and yogurt seem to be two especially hot areas with plenty of potential for growth. "Orange juice was always a growth area," says Beatrice's Dutt, "but Procter & Gamble's [Citrus Hill] entry signals that it was an undermarketed area." As for yogurt, producers see evidence of growth potential based on consumption patterns in other countries. While U.S. consumers eat only 2.7 pounds a year, per capita, of the stuff, "European per capita consumption is 10 to 20 times that," says General Mills' Schulze. "I think demand should grow." ■

Branded goods on their hard-won shelf space

"The higher-end brands held up much better than commodity-type items."

The top two slots in both the beer and soft drink industries have been a given for years. The action is in the battle for number three.



Beverages

By Laura R. Walbert

Back in 1981 Forbes asked Russell Cleary, chairman of acquisition-minded G. Heileman Brewing Co., if he thought Heileman, then number six in industry sales, would ever overtake Anheuser-Busch and Miller. "I don't think that's our objective," Cleary replied quickly. "I would rather be number three in sales with the highest return on equity and best earnings growth in the industry."

Well said. Cleary is closing in on his sales target, helped by the acquisition last March of six Pabst/Olympia brands that already account for 15% of Heileman's shipments. Last year Heileman's $1.1 billion in sales made it the nation's fourth-largest brewer. More important, the company also held its top spot on the Forbes Profitability Yardsticks for the fifth year in a row, with a five-year average return on equity of 31.7%, dipping only slightly to 28.7% in the latest 12 months.

Heileman's strategy to date has been not unlike Yardsticks-topping food companies Dean and ConAgra *(see p. 208)*, which have concentrated on strong regional brands. But now Heileman is planning to expand some of its regional brands into the South, using the new Pabst/Olympia plants in Texas and Georgia. Whether Heileman, which is leveraged relatively highly, can do that without cost to its profitability ranking will be the acid test for Russ Cleary.

Nationwide beer consumption is as flat as yesterday's Bud, partly because of the recession but, more important, because the population has grown older and more health-conscious. Despite a hot summer, beer consumption grew only about 1% last year, compared with the usual prerecession 3% or 4%.

It is the same story elsewhere in the beverage industry. Wine consumption, which had been growing at an annual rate of 6% since the mid-1970s, has slowed to about 3%, with domestic wines suffering particularly large losses as the consumer drank imported wines made cheap by the strong dollar. Consumption of distilled liquor has been declining steadily every year for nearly a decade on a per-adult basis.

Even soft drink consumption has leveled off. It had been growing at a 6% to 7% average annual rate through the 1970s, but has dropped to 4%, as the number of teenage consumers has dropped.

Meister Bräu beer from Miller Brewing
Forced to resurrect the cheap brew.

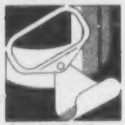
For the industry leaders, of course, this is, next to drug smuggling, still one of the most profitable lines of work in the U.S. But it ain't what it used to be. The beverage producers' performance in return on equity was well below 1982's 18% and 1981's 18.9% median results.

So it's now a zero-sum game, like a poker game, where every winner creates a loser. Making matters worse is the domination of both the beer and soft drink markets by not one but two strong leaders. Anheuser-Busch and Miller Brewing together own 55% of the nation's beer sales, while Coke and Pepsi combined sell 64% of the soft drinks. That leaves the rest of the industry, as Heileman's Cleary testifies, battling for number three, and survival.

That battle has been particularly fierce for brewers. The recent rash of takeovers seems to have subsided for the moment as privately held Stroh secured the number-three spot with the twin acquisitions of F&M Schaefer and Jos. Schlitz Brewing, while Heileman moved into fourth position with the Pabst acquisition. That left Adolph Coors as number five and the new Pabst in the number-six slot.

But a new battle is about to be fought for control of the southeastern states, where a still expanding population and a warm climate have created one of the few growing markets for beer. Colorado-based Coors, stuck in an earnings slide since 1979, invaded the Southeast last year and enjoyed a 25% increase in sales for the first half of the year alone (Forbes, *Oct. 24, 1983*). That was enough to give it the only profitability uptick in the latest 12-month figures for the alcoholic beverages group. Now Heileman, brewer of Old Style, Blatz and Rainier, to name a few, is about to launch its own attack on the southern states, using its newly acquired breweries in San Antonio and Perry, Ga. Says Cleary, "We have very good market share in most of the midwestern and northwestern states—23% on average in our ten largest states. But we have a 2% market share in the Sunbelt states, so there's great potential for our brands in those markets."

Don't expect the top two brewers to take this sitting down. Philip Morris-owned Miller, brewer of Miller High Life, Löwenbräu and Lite, encountered weak sales of premium-priced Miller High Life. Meanwhile sales of



competing popular-priced beers rose as brewers increased distribution and some recession-stricken drinkers traded down from more expensive beers. Jerry Steinman, industry follower, estimates Stroh's Old Milwaukee was up 15%, its Schaefer was up 50% and Heileman's Carling Black Label up nearly 50%. Still without an entry in the popular-price segment even though it accounts for 21% of the beer market, Miller dusted off its old regional Meister Bräu brand, shelved since the mid-1970s. It was a less than impressive response from mighty marketer Philip Morris.

Competition was no less fierce last year in soft drinks, especially in the segment of the market inhabited by teenagers. Seven-Up, despite recent gains in market share, has yet to turn in an operating profit since Philip Morris bought it in 1978. Royal Crown has had its earnings-per-share growth stunted to a five-year average of 4.6% as the Big Two rushed to copy its highly successful decaffeinated and sugarless RC 100, and lowered the price umbrella elsewhere. That price competition was the coup de grace for struggling Dr Pepper, as the latest 12-month figures demonstrate. Although the shrewd 1982 acquisition of Canada Dry, which gave it needed distribution, was beginning to pay off, a sagging Texas economy and price wars caused Dr Pepper to throw in the towel and consider takeover offers from Forstmann Little and Hawaiian Castle & Cooke.

Meanwhile, the bottlers are having their own troubles. It continues to be true that for the bigger operations, like General Cinema, Allegheny Beverage and MEI, all of which rank in the top three slots in the industry Profitability Yardsticks, bottling is still a license to coin money. (General Cinema's phenomenal 12-month figures, let the record show, are mostly because of earnings from its R.J. Reynolds holdings and its sale of a Miami TV station.)

But smaller bottlers are suffering cost increases as new diet, no-caffeine and even no-salt products require a greater variety of packaging.

Aspartame, the newly approved low-calorie sweetener, is one bright spot for the beverage industry. Diet soft drink sales, which are already 20% of the soft drink business and growing at 10% to 12% a year, are expected to grow even faster, as aspartame eliminates that unpleasant aftertaste from diet soda.

Total beverage industry demand will also pick up as the recovery continues and strengthens. But the war will continue. "There's no question that some brands are going to fall by the wayside," says Brian Dyson, president of Coca-Cola U.S.A. "There's just not enough room on store shelves for all the different brands. But those companies that shrewdly execute their marketing strategy, sustain their products from plant to grocers' shelves, and support a strong distribution system will survive."

That may spell opportunity for the new Seagram brand mixers, created by the Coca-Cola Bottling Co. of New York. First test-marketed in late 1982, the mixers, including tonic water, club soda, seltzer and ginger ale, are already the number two brand of mixer in New York, says Jerome Will, head of the project for Coca-Cola of New York. And it will take Seagram mixers nationwide using not only the strong Coke distribution network, but bottlers of any noncompeting soft drink, including Pepsi, RC Cola, 7UP. But for mom and pop it looks like time to cash in the chips and sell out to the highest bidder. ■

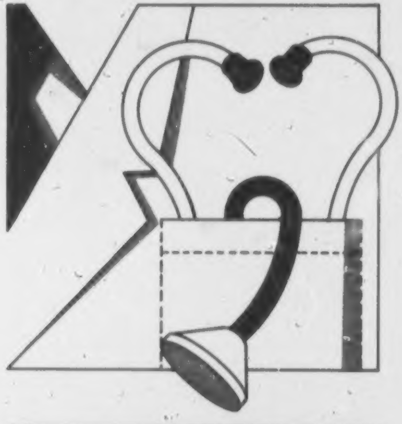
Beverages

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Alcoholic beverages												
G Heileman Brewing	1	31.7%	28.7%	0.8	1	21.9%	14.5%	5.1%	1	29.2%	1	29.4%
Brown-Forman Dist	2	22.9	21.6	0.1	2	17.8	18.5	10.3	3	15.0	2	25.6
Anheuser-Busch Cos	3	20.0	18.7	0.4	3	11.7	11.2	5.9	2	18.7	3	21.7
Seagram	4	13.5	8.7	0.3	4	10.0	7.3	9.6	6	4.1	4	21.6
National Distillers	5	9.8	4.4	0.2	6	8.1	4.5	2.3	5	6.3	6	–2.4
Adolph Coors	6	9.0	10.8	0.0	5	8.2	9.6	8.0	4	10.2	5	0.9
Pabst Brewing		**	**	**		**	**	**		**		**
Medians		**16.8**	**14.8**	**0.3**		**10.9**	**10.4**	**7.0**		**12.6**		**21.7**
Soft drinks												
General Cinema	1	29.2%	54.3%	1.6	4	15.8%	22.0%	10.1%	6	14.2%	2	24.6%
Allegheny Beverage	2	29.0	35.3	3.8	5	14.0	10.2	2.1	2	27.5	3	23.9
MEI	3	28.5	27.1	0.9	3	17.2	15.4	6.3	1	27.8	1	27.5
Coca-Cola	4	22.2	19.9	0.2	1	20.2	16.4	8.2	7	12.8	5	9.9
Dr Pepper	5	19.2	5.9	0.8	2	19.9	6.8	1.8	3	17.5	8	3.5
PepsiCo	6	18.3	14.7	0.5	6	13.2	10.4	3.2	4	17.3	6	8.7
Wometco Enterprises	7	15.7	14.3	0.8	7	10.6	8.9	5.6	5	16.0	4	10.9
Royal Crown Cos	8	14.3	14.1	0.5	8	10.6	10.7	3.4	8	8.6	7	4.6
Medians		**20.7**	**17.3**	**0.8**		**14.9**	**10.6**	**4.5**		**16.7**		**19.4**
Industry medians		**19.6**	**16.7**	**0.5**		**13.6**	**10.6**	**5.8**		**15.5**		**16.3**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
**Not available; not ranked

The end of cost-plus reimbursement is going to stand this booming industry on its ear—but not in quite the way you might expect.



Health care

By Anne Bagamery

PICTURE AN INDUSTRY that has grown to gargantuan size in two decades on cost-plus sales and the heavy leverage they allow. Now gradually take away cost-plus by act of Congress. What do you get? Moans, groans and screams of pain? No, cheering.

MediClinic

Houston-area MediClinic
For hospitals, the biggest change since Lister.

That's a thumbnail sketch of what's going on in the $300 billion health care industry these days. The four largest hospital management companies—Hospital Corp. of America, Humana, American Medical International and National Medical Enterprises—each boast over $1 billion in sales, better than 25% a year sales and earnings growth, above-average profitability and huge debt loads. Their spectacular track records were made possible by that remnant of the Great Society, liberal health insurance.

With health care costs now eating up 10.5% of the gross national product, Congress stepped in with new Social Security legislation that took effect in October and changed the Medicare-Medicaid reimbursement guidelines from a percentage of costs incurred to a fixed amount per procedure. That, of course, neatly shifts the onus for cost control to the hospitals.

Meanwhile, corporations and other group buyers of health insurance are instituting their own cost controls, in the form of preferred-provider contracts—group plans that authorize full payment for health care only to certain low-cost providers.

Are the for-profit hospitals ready for this? "Very few health care companies can tell you now what it costs to deliver specific services," says Richard Eamer, chairman of $2.1 billion (sales) National Medical Enterprises, the fourth-largest publicly owned hospital chain. "That will have to change."

So why aren't Eamer and his brethren at the other hospital-management giants screaming for relief? After all, everyone knows what havoc deregulation has wrought on the equally leveraged-to-the-hilt airlines. Why, instead, does Humana Chairman David Jones think 1984 will be "the most exciting year in our short history"?

The answer is simple: The big chains like Humana are convinced they are already the low-cost provider by a wide margin in the areas they serve because of efficient management of their greater economies of scale (FORBES, *Sept. 26, 1983*). Besides, to the extent that changes have to be made, the for-profit hospital chains feel they will have plenty of time to make them. Price deregulation is coming gradually. This year 25% of Medicare-Medicaid payments will be reimbursed on the new system by diagnosis-related groups (or DRGs), with 25% added each year until 1987.

What does the phasing out of cost-plus reimbursement imply for companies in hospital supply—the companies that make everything from CAT scanners to bandages, and sometimes take out the laundry? It implies that there will be severe price competition on traditional products where there are several suppliers, and sharply improved opportunities for newer products that can save time and money.

Short term at least, that's more bad news for the older subsidiaries of Johnson & Johnson, still hurting from the Tylenol tampering and the Zomax recall, although new pharmaceutical and high-tech medical devices should offset that in time. It's also more bad news for ailing Becton Dickinson, which fell sharply on the industry Profitability Yardsticks during the latest 12 months because of heavy writeoffs of failing high-tech new products.

On the other hand, it's bound to be good news for booming Baxter Travenol, which had the foresight to launch a hospital cost-identification consulting service that probably will push BT's extensive outpatient home-

care delivery system, which is often cheaper than in-hospital care. That, of course, was a natural outgrowth of BT's portable dialysis machines that are increasingly replacing its costly kidney dialysis equipment. It's a classic example of virtue rewarded: Because Baxter has done the research and made the necessary investments in its core businesses, it gets a rejuvenating approach to its market almost automatically.

Whether the end of fixed-cost reimbursement will be good for the lower-technology suppliers will largely depend on how efficient their distribution systems are. Yardsticks-topping ServiceMaster, the king of hospital maintenance, probably has little to worry about. But outfits like American Hospital Supply and Abbott Laboratories may well find increasing competition from the pharmaceutical companies, which have already started invading this territory *(see Drugs, p. 215)*. Certainly there will be plenty of opportunity ahead for the smaller hospital-management chains—the Universal Healths and Charter Medicals—that are trying to grow through acquisition of small, foundering community hospitals. That foundering is likely to pick up in volume, and with it the acquisition opportunities. With some 15% of the nation's 6,000 facilities owned by chains, there is no lack of candidates. "The challenge," predicts National Medical's Eamer, "is for the smaller chains to convince hospital boards that they have the money and experience to manage their acquisitions. As the chains grow, however, they should have little trouble."

If all this bottom-line analysis sounds bloodless, you are thinking like a doctor. The *New England Journal of Medicine*'s Dr. Arnold Relman, in an acerbic exchange with HCA Chairman Donald S. MacNaughton on the Public Broadcasting System's *MacNeil/Lehrer NewsHour*, maintained that doctors should not be hampered by bottom-line concerns while they are deciding how to manage patient health. MacNaughton's response: Patients are increasingly managing their own health. Besides, he said, the last thing the health care community needs is continued estrangement from the world of cost responsibility.

Many think Washington may put another cloud on the horizon: As the for-profits grow and, inevitably, put some of the not-for-profits out of business, protests are to be expected from politicians seeking to protect jobs in their home states.

"There will be a lot of bitching, but I think eventually everyone will learn to live with it," says National Medical's Eamer. "The question is, will Congress give us enough time to assimilate the changes?" Adds Humana's Jones, "It's better to serve two patients than one. If you have to close down an old hospital to accomplish that, so be it."

Another near-term concern is what the growth of preferred-provider organizations, or PPOs, will do to hospital occupancy rates. In general, a shift in the way health care is delivered penalizes acute-care hospitals. This happened in 1983 as freestanding surgery and general care centers (docs-in-the-box) took root. PPOs, which by definition look for the lowest-cost means of delivering health care, can be counted on to steer subscribers away from high-overhead facilities and into newfangled providers like the Surgicares and MediClinics. But heads of hospital management firms aren't losing much sleep over it. "Occupancy rates generally rise late in a recovery," says AMI's Chairman Royce Diener. "Whatever slip occurs will be more than made up for."

Say this for the heads of the big hospital chains: They are looking at 1984 with high spirits. Says National Medical's Eamer: "This is just another form of retail selling—controlling costs to deliver the most effective product at a reasonable price." Talk like that may not thrill the medical community, but it has the sound of good business. ■

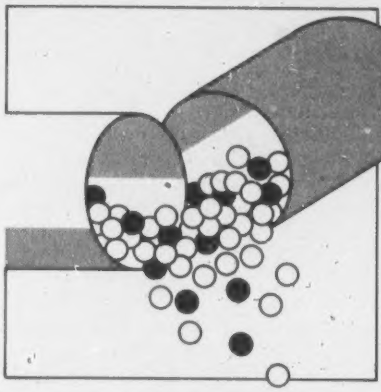
Health care

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
ServiceMaster Inds	1	39.7%	44.2%	0.0	1	40.0%	43.3%	3.7%	6	22.2%	7	24.8%
Humana	2	32.6	34.2	1.6	10	12.4	14.7	9.1	4	33.9	2	47.1
Shaklee	3	25.7	28.0	0.1	2	19.8	23.2	6.5	7	20.2	10	15.5
Abbott Laboratories	4	24.2	25.1	0.1	3	19.6	20.5	11.6	9	16.0	8	19.7
Natl Medical Entrprs	5	20.7	18.0	1.2	9	12.4	10.4	5.4	1	48.9	4	30.5
Amer Medical Intl	6	20.5	22.4	1.0	11	12.2	12.9	7.6	5	28.4	5	28.6
Beverly Enterprises	7	19.9	12.3	2.2	12	11.3	7.1	3.1	2	43.5	1	74.6
Johnson & Johnson	8	19.9	17.9	0.1	4	19.0	16.8	8.6	11	14.8	12	14.0
Whittaker	9	19.6	9.7	0.5	5	18.4	14.5	2.0	12	14.6	3	31.4
Hospital Corp of Am	10	19.2	16.8	1.1	13	11.0	10.5	7.2	3	34.7	6	26.1
Baxter Travenol Labs	11	18.5	20.1	0.2	6	15.0	17.4	11.8	8	16.2	9	18.9
Amer Hospital Supply	12	17.1	18.2	0.1	7	15.0	16.3	6.8	10	15.1	11	15.4
Bausch & Lomb	13	15.9	14.3	0.3	8	13.3	11.2	7.0	14	8.0	13	9.6
Becton, Dickinson	14	12.7	6.2	0.4	14	10.7	5.2	3.2	13	13.8	14	6.4
Sybron	15	3.5	def	0.5	15	4.4	def	def	15	3.7	15	-19.0
Industry medians		**19.9**	**18.0**	**0.4**		**13.3**	**14.5**	**6.8**		**16.2**		**19.7**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38
def: deficit.

Remember the 1970s, when pharmaceutical firms bought foodmakers and called themselves "consumer products companies"? Now health care is the order of the day, and medical instruments the acquisition of choice.



Drugs

By Anne Bagamery

VARIATIONS on a theme:

John Culligan, chairman of American Home Products Corp.: "Our acquisitions policy is geared toward anything in health care."

Richard Furlaud, chairman of Squibb Corp.: "We can better serve the changing health care industry as a diversified supplier of health aids, from drugs to equipment."

Joe Williams, president of Warner-Lambert Co.: "Face it, the financial community rewards you better if you're a health care company."

In the late 1960s and during the 1970s, the watchwords were consumer products. Pharmaceutical companies, anxious to cushion their earnings from the Food & Drug Administration's stiffer testing requirements, fell over themselves to acquire bakeries (Warner-Lambert bought Entenmann's), candy companies (Squibb bought Lifesavers), eyeglass manufacturers (Warner-Lambert bought American Optical). Now it's health care, and one glance at the industry medians on page 251 tells the story. Not only is health care a closely related business using some of the same distribution channels, but it is also one of the few businesses that's nearly as profitable as ethical drugs. So recently the big drugmakers have been stripping off their old consumer products acquisitions and pouring the money into medical supply firms. As an example of this strategy, Warner-Lambert took the proceeds from the sale of Entenmann's and bought IMED Corp., a medical technology firm, in 1982.

How shrewd this turns out to be remains to be seen. While acute (that is, hospital-delivered) health care is growing better than 10% a year and currently consumes more than 4.5% of GNP, government-mandated Medicare reimbursement controls seem sure to make some areas of the medical supply business quite a bit more price-competitive and, hence, less profitable.

Meanwhile, the drug business has been doing quite nicely. Unit sales of prescription drugs were up about 4% in 1983. That's the biggest increase in the last several years. What triggered the past year's boomlet in drug sales? Some say it was produced by the graying of America—older patients take more medicine. Others say it was the substantial increase in the number of general practitioners, who tend to prescribe much more medicine than specialists. Neither trend shows any sign of abating.

Drug research at Johns Hopkins

With an aging population, a booming market.

So why, if it was such a good year, did a company like the Upjohn Co. turn in such a poor performance relative to its five-year profitability averages on the Forbes Yardsticks? Bad times for its commodity chemical business. As for Schering-Plough Corp., pharmaceutical profits haven't been the same since Garamycin went off patent in 1980, but a new cardiovascular drug, still awaiting final FDA approval, is due to hit the market in late 1984. Further on, the introduction of the potentially lucrative interferon may also promise earnings pickup. Then there was Richardson-Vicks Inc., hurt by the strong dollar, with two-thirds of its earnings coming from overseas. In 1983, in a bid to boost long-term profitability, R-V acquired Pantene Co. and Vidal Sassoon, Inc. in the personal care field. But earnings recovery in fiscal 1984 may be partially postponed because of heavy promotional expenses for new products.

To counter the kind of profit nosedive that Schering went through when Garamycin went off patent and the price wars began, pharmaceutical companies are trying to establish a foothold in the over-the-counter market before a drug goes off patent and gets eaten alive by the generics. Take Upjohn's highly profitable (about a third of earnings) antiarthritic Motrin, for example. Motrin goes off patent in 1985, and Upjohn and American Home Products have been seeking FDA approval to "reclassify" it and market the drug over-the-counter. Unfortunately, the reclassification process is slow, meaning that Upjohn and AHP may have only a short time before Motrin becomes fair game for the generic drugmakers (who have to prove that their product is equivalent in order to receive approval to market it). But when approval comes, as many think it will in 1984, it still could mean millions of dollars in retail sales

in the larger, over-the-counter market. Reclassification could also prove profitable for companies like Squibb, Schering-Plough and A.H. Robins Co., which have many approvals pending.

Meanwhile, drug company research spending is on the rise. Such spending reached $2.5 billion, 7% of industry sales, in 1983. Most of this research is targeted for the treatment of chronic ailments—cancer, heart disease, arthritis. There is a basic, bottom-line concern at work here. Since patients take chronic disease drugs for long periods of time, such drugs are more profitable to produce.

Also, while it may seem cynical to say, it is nonetheless a fact that chronic disease pharmaceuticals may get a company noticed in the stock market. The $200 million Bristol-Myers Co. derives in sales from anticancer drugs gets a lot more attention than its 5% share of Bristol's nearly $4 billion sales would seem to warrant. Bristol-Myers commands a price/earnings multiple of 15, near the top of the industry, in part on the strength of this project. Likewise Warner-Lambert is touting its research into drugs that may treat genital herpes and Alzheimer's disease. Such clever marketing may help boost Warner-Lambert's current P/E of 12.

But with their generally low debt load and enviable cash flows, most pharmaceutical companies can easily afford a dalliance in the medical supply field at the same time. The risks here may be greater than they think, however.

Certainly, changes in Medicare reimbursement guidelines are bound to force hospitals, and hence doctors, to seek more efficient ways to deliver health care. It is by no means clear at this stage who will be helped and who hurt. Probably there will be fewer inpatient surgical procedures and increasing reliance on outpatient treatment and medication—the area the pharmaceutical companies emphasize in their prescription-drug research.

Certainly, changes in reimbursement guidelines will force hospitals to seek efficiency. But whether this will benefit low-tech medical suppliers is quite another question.

But whether the low-technology kinds of medical supplies made by a company like American Home Products will benefit as hospital management companies adjust to their new cost-consciousness is quite another question.

Naturally, pharmaceutical executives see the situation a little differently at the moment: "Because of uncertainty over the funding changes, hospitals will be reluctant to buy large items, such as ultrasound equipment," says Furlaud of Squibb, which gets 20% of its $1.6 billion sales from medical equipment. "But they will always need laboratory instruments and intravenous bags. That's where we come in."

But will the hospitals really care who makes those intravenous bags in the future, as long as they are cheaper? Does it have to be a Johnson & Johnson suture? Maybe they will discover that U.S. Surgical's surgical stapler is far cheaper, as well as more effective.

Warner-Lambert is no slouch, but look at the problems they have had with IMED. The medical equipment division has had problems bringing new products out on time and is plagued by management squabbles. These problems didn't surface until a year after Warner paid $468 million for the company.

At the moment, however, drug executives are flush with success, and concerned more about whether the dollar will weaken in 1984, thereby triggering a recovery in the industry's big overseas sales. The future looks bright indeed. Says Bill Miller, head of Bristol-Myers' prescription drug business: "We think the industry has one of its best years ahead." ■

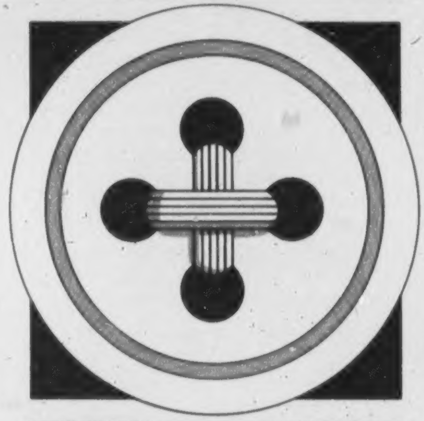
Drugs

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
SmithKline Beckman	1	35.1%	26.4%	0.1	2	31.2%	23.3%	15.3%	1	24.9%	1	27.7%
American Home Products	2	33.9	34.7	0.0	1	33.4	32.4	12.7	9	10.6	4	12.5
Merck	3	22.8	20.2	0.1	5	19.2	15.8	14.0	5	11.8	10	10.0
Bristol-Myers	4	22.6	22.9	0.1	3	21.0	21.5	10.2	8	10.9	3	13.4
Eli Lilly	5	22.0	21.7	0.0	4	20.6	19.4	14.7	3	13.9	6	11.0
G D Searle	6	20.8	22.8	0.3	7	16.0	18.7	16.0	13	5.9	2	17.3
Upjohn	7	19.1	15.5	0.4	12	14.0	11.3	7.8	6	11.6	5	12.1
Schering-Plough	8	17.9	14.4	0.2	6	16.5	12.0	10.7	2	14.4	12	5.4
Pfizer	9	17.8	20.2	0.3	11	14.2	16.7	11.6	7	11.2	8	10.2
Sterling Drug	10	16.3	15.4	0.1	9	14.4	13.3	7.1	11	9.7	11	7.8
A H Robins	11	15.6	17.8	0.1	10	14.3	16.6	10.5	10	10.4	8	10.2
Richardson-Vicks	12	14.9††	10.5	0.4	8	14.5††	9.2	4.5	4	12.6‡	7	10.7‡
Squibb	13	13.6	15.0	0.3	13	10.8	12.2	9.5	14	5.4	13	3.4
Warner-Lambert	14	11.4	16.9	0.6	14	8.0	10.2	6.3	12	6.7	14	–4.6
Industry medians		**18.5**	**19.0**	**0.2**		**15.3**	**16.2**	**10.6**		**11.1**		**10.5**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
††Three-year average. ‡Four-year growth.

The apparel industry spent the recession developing marketing strategies and cleaning house. The harvest began in 1983, and 1984 should be even better.



Apparel

By Laura R. Walbert

THERE HAS BEEN a transition within the apparel business," says Larry Pugh, chairman and chief executive of V.F. Corp. "Apparel makers are recognizing that they need a marketing approach, not just a manufacturing approach to merchandise."

Advice from the folks at V.F. is worth heeding. The $1.1 billion (sales) company, maker of Lee jeans and Vanity Fair lingerie products, steals the show on the Forbes Profitability Yardsticks for the latest 12 months with an impressive 37.5% return on equity and a 32.3% return on capital. That leaves giant Levi Strauss & Co., with sales of $2.8 billion the world's largest apparel maker and longtime industry profit leader, in the dust with its far lower 19.2% return for the same period.

The disparity is mainly attributable to different marketing strategies. With the jeans market flat at around $5 billion annually, Levi's tried to spur sales by mass marketing its jeans products through Sears and J.C. Penney. That strategy backfired, however, because it antagonized many of Levi's department and specialty store retailers. Some reduced or even dropped their Levi's line. A slump in Levi's international business only made matters worse.

Executives at V.F., in contrast, sought to prolong the life of the great denim bubble through the introduction of new products. V.F. was one of the first producers to come out with stretch jeans. In 1982 it introduced the more styled fashion jeans for women and brought out the Lee Dress Blues, which Pugh describes as "jeans with a dress-up look." As a result, V.F.'s share of the U.S. jeans market has risen from 2.5% to nearly 11% since 1980.

V.F.'s new product push extended to its Vanity Fair lingerie line as well. The La Femme de Vanity Fair collection of fashionable sleepwear products for the 25-to-35-year-old woman was added in 1983. "The young women's sleepwear market is a big one, and a market where we have been weak," says Pugh. "What we have tried to do over the past year and a half is improve our marketing expertise so

Apparel

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Clothing												
VF	1	27.9%	37.5%	0.1	1	23.8%	32.3%	11.0%	4	12.0%	2	24.8%
Levi Strauss	2	24.0	19.2	0.2	2	21.3	17.4	7.0	2	15.5	5	14.8
Warnaco	3	18.9	18.2	0.3	3	14.1	15.6	5.5	12	5.2		D–P
Palm Beach	4	18.6	13.7	0.6	4	13.8	10.8	2.6	1	21.5	7	8.7
Oxford Industries	5	15.7	25.4	0.2	5	13.3	21.5	4.7	5	10.9	3	16.8
Blue Bell	6	14.4	11.1	0.2	6	12.8	9.7	3.9	3	12.4	9	3.0
Interco	7	12.2	9.2	0.3	7	11.0	8.5	3.6	6	9.8	8	4.1
Hartmarx	8	12.0	13.7	0.4	8	10.4	11.2	3.6	7	7.8	4	15.6
Cluett, Peabody	9	10.2	11.8	0.4	9	8.6	9.3	3.0	8	7.0	6	14.6
Phillips-Van Heusen	10	8.8	11.9	0.4	10	7.6	10.2	2.7	9	6.3	1	30.0
Kellwood	11	6.6	15.4	0.7	11	6.9	13.0	2.4	11	5.6	11	–7.4
Manhattan Industries	12	6.4	12.9	0.7	12	5.9	8.9	1.9	10	5.9	10	–1.6
Jonathan Logan	13	def	13.3	0.2	13	0.9	11.8	4.6	13	2.3	12	P–D
Medians		**12.2**	**13.7**	**0.3**		**11.0**	**11.2**	**3.6**		**7.8**		**11.7**

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. D–P: deficit to profit; not ranked. def: deficit.

it is as good as both our financial and manufacturing abilities."

That's just what every manufacturer ought to be doing, says a spokesman for New York-based consumer goods consultants Kurt Salmon Associates. "Companies like Warnaco, V.F., Oxford Industries and Kellwood were among the top performers in 1983 because they know where they are going long term, they've learned to live with the import situation and they think of themselves as marketers first," he says. To put it another way, the age of designer labels and brand names, off-price retailing and foreign imports (now 30% of retail sales) has made it essential for the manufacturer to become more sensitive to the retail end of the business.

For those that were, 1983 turned out better than most apparel makers had anticipated. Consumers opened up their pocketbooks and freshened up their wardrobes. During the second quarter, when real GNP grew 9.2%, clothing sales leaped an inflation-adjusted 18.7%, according to figures from Value Line. Rag trade executives are looking for another 10% growth in apparel sales in 1984.

Hartmarx' Austin Reed suits for women
A brand you can take anywhere?

Building a brand name is the classic way to upgrade your marketing effort in the apparel industry. That's what Oxford Industries, a newcomer to FORBES' list, has been doing. Less than a decade ago the $517 million (sales) Atlanta-based company was little more than a small producer of "commodity" apparel, selling mainly to J.C. Penney and Sears. But using brand names like Polo, by Ralph Lauren, for boyswear and Merona Sport for sportswear enabled Oxford to raise both prices and margins significantly. In 1983 Oxford's 25.4% return on equity and 21.5% return on capital was topped only by V.F. and Nike, the still-booming athletic-shoe maker (whose 30% return on capital, vs. a five-year average return of 65.6%, shows the first hints of strain in that crowded market).

And a round of applause for Jonathan Logan, a maker of women's apparel whose recently achieved 4.6% net profit margin is well above the industry median. Back from red ink on its five-year average, the company closed its money-draining knitting mill and cut some unpopular lines during the last few years—just the kind of slimming down so much of the rest of American industry has

Apparel

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Textiles												
West Point-Pepperell	1	12.3%	13.3%	0.3	2	9.9%	10.8%	4.3%	1	10.5%	3	9.1%
Collins & Aikman	2	11.3	16.5	0.3	3	8.9	12.3	4.3	2	7.6	4	5.7
Cone Mills	3	10.9	4.8	0.1	1	10.0	4.8	2.4	9	4.0	6	2.1
Riegel Textile	4	10.3	5.4	0.3	6	7.8	4.6	1.9	3	7.4	7	1.6
Fieldcrest Mills	5	10.3	9.3	0.4	4	8.3	7.8	2.9	4	7.3	5	3.5
Springs Industries	6	9.1	8.0	0.1	5	8.0	7.3	3.7	5	7.0	2	17.1
Burlington Inds	7	7.5	7.7	0.4	7	6.1	6.3	3.0	7	5.3	8	0.2
M Lowenstein	8	6.6	10.5	0.4	8	6.1	8.3	3.2	11	1.8	1	72.9
Avondale Mills	9	5.6	12.2	0.1	9	5.3	10.5	3.5	8	5.1	9	−1.2
J P Stevens	10	3.4	2.9	0.6	10	3.9	3.6	0.8	6	6.2	10	−14.1
Graniteville	11	def	def	0.5	11	1.0	def	def	10	2.8	11	P–D
United Merch & Mfrs	12	def	def	0.7	12	def	1.4	def	12	−7.1	12	D–D
Medians		**8.3**	**7.9**	**0.4**		**7.0**	**6.8**	**3.0**		**5.8**		**1.9**
Shoes												
NIKE	1	77.6%	30.3%	0.1	1	65.6%	30.0%	6.7%	1	71.9%‡	1	71.6%‡
SCOA Industries	2	27.5	20.7	0.9	3	17.2	13.3	3.0	4	11.7	2	23.3
Melville	3	25.3	21.6	0.2	2	23.9	21.2	4.2	2	18.0	5	16.3
United States Shoe	4	20.5	19.9	0.2	4	16.7	17.3	5.0	3	12.1	4	17.4
Brown Group	5	17.5	17.5	0.2	5	14.4	15.1	4.4	5	9.4	3	19.1
Genesco	6	3.9	def	1.6	6	4.7	3.7	0.2	6	−7.2		D–P
Medians		**22.9**	**20.3**	**0.2**		**17.0**	**16.2**	**4.3**		**11.9**		**19.1**
Industry medians		**10.9**	**12.9**	**0.3**		**8.9**	**10.5**	**3.5**		**7.3**		**8.7**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. D–D: deficit to deficit. D–P: deficit to profit; not ranked. def: deficit.

needed. Now with 95% of its sales in women's branded apparel, such as Villager sportswear and Misty Harbor rainwear, Logan is in a position to enjoy the resurgence of brand names and America's renewed interest in denim-free dress. Dress sales for 1983 were up 25%, says Logan Chairman and Chief Executive Richard Schwartz. Especially popular were soft looks, such as sweater dresses and untailored blazers.

Like Oxford, Logan has been moving increasingly into branded goods as well as adding new product lines. Logan's "signature line," Etienne Aigner, originally was just a collection of leather goods. Today the Aigner line contributes 30% of company sales and an estimated 35% to 40% of operating profits. "In the last ten years, though, we've added items every season," says Schwartz. "We started adding raincoats in 1973-74. Knitwear was added four years ago. This past year we added button-down oxford shirts. It's been constant."

Chicago-based Hartmarx, the nation's largest manufacturer of quality men's suits, is also benefiting from the trend to more conservative dress. Male baby-boomers are now entering the suit years: The number of men in the 35-to-54-year-old bracket will grow 28% during this decade, compared with only 4% in the 1970s, according to Hartmarx Chairman and Chief Executive Jerry Gore.

Again, brand names are important. Capitalizing on the successful Austin Reed of Regent Street men's collection, which has grown to sales of $40 million in seven years, Gore expanded the Austin Reed name to women's suits in 1982. And Hartmarx' longstanding practice of selling to one retailer in each community has protected Hartmarx' brand names, such as Hickey-Freeman and Hart Schaffner & Marx, from the ravenous off-price retailers who would ruin the line's ability to command full price.

To reach the growing market for inexpensive suits (80% of all suits sold are priced at $200 or less), Hartmarx bought Kuppenheimer, a manufacturer and retailer of low-priced (under $150) suits in December 1982. Close to 50 stores were added to the chain in 1983, and at least that many will be added in 1984, says Gore.

Of course, a successful apparel maker also has to learn how to deal with imports. And brand names are good weapons in that battle as well, reports Gore. "Imports are for the most part not branded, and they do not compete effectively with brand names," he says.

There is more than a little bravado in that statement, of course. After all, imports do control a third of the U.S. market. And like the automakers, who are in a similar fix, many apparel makers are doing better by joining the enemy. "Oxford and Kellwood [a longtime Sears supplier of apparel and home furnishings] used to be the strongest bastions of 'Made in America or else,'" says Kurt Salmon's spokesman. "Well, Kellwood now owns Hong Kong-based Smart Shirts Ltd., and Oxford has some of their goods made in China, and they are both moving ahead beautifully."

Oak Hill Sportswear uses the same strategy. An $85 million (sales) apparel maker, Oak Hill turned up in the number two slot on FORBES' recent list of Up & Comer companies *(Nov. 7, 1983)* with a five-year average return on equity of 141.5%.

Currently more than 10%, and soon one-quarter, of the company's sales will come from marketing sweaters that are made in the Orient. "You can never be competitive with imports; the labor costs don't allow it," says Oak Hill President Joseph DeClemente. "But we have been able to watch the import market and be into items that either they don't make or that we can supply when they get backed up in their deliveries."

This doesn't mean the apparel industry has given up on competitive pricing. Companies like Warnaco, Palm Beach and Cluett, Peabody spent the last two years cutting costs by reducing inventories, dropping weak product lines and trimming overhead. The results are in the net profit margins. For Warnaco, the producer of such lines as White Stag, Hathaway and Puritan, the net profit margin improved to 5.5%, from 4.7% in 1982. Shirtmaker Cluett, Peabody saw its margin rise from 2.5% to 3.0%, and for Palm Beach, a maker of high-quality men's and women's apparel, margins rose to 2.6%, from 1.5%. In this industry those are impressive gains.

As for 1984, if the apparel companies are not careful, they might just have a great year. If that doesn't happen, they may have no one to blame but themselves. ■

No sagging sales here

By industry standards the $3.5 billion women's hosiery market has been experiencing runaway growth for the last year or two. Reason: the popularity of colored and textured panty hose.

The 1.3 billion pairs of hose that were shipped in 1982 represented a 7% increase over the 1981 shipment, says Sid Smith, president of the National Association of Hosiery Manufacturers. And over at Hanes Hosiery, a division of Consolidated Foods Corp., President Wade Harn reports delightedly, "Hosiery volume was up 8% in units between August and October [of 1983]. A normal increase would have been more like 2%."

What has brought colored hose into the limelight? Smith has a theory: "We had a downturn in the economy and a more stringent attitude toward consumer spending at a time when people were thinking emotionally about dressing up. Consumers found they could dress up their outfits and change their total ensemble look by changing their hosiery. The new colors, patterns and styles that the hosiery manufacturers came up with played right into that trend."

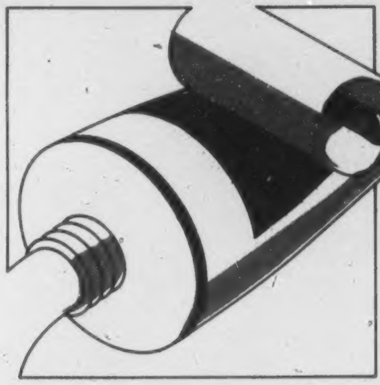
Hanes
Colorall

Colored panty hose
A recession success.

Hanes responded by expanding the colors in its existing lines, introducing the new Coloralls brand and offering new colors and textures in its Oleg Cassini signature line each spring and fall. Says Harn, "Our volume in the Cassini line for the fall of 1983 was twice what it was for fall '82, which was twice the fall of '81." New colors and weights were also added to lower-priced L'eggs panty hose, another Consolidated Foods product, which sell through supermarket and drugstores.

Will the fad last? Says Harn, wistfully, "I wish I knew."—**L.R.W.**

Here we have consumers slowing down and the fragmentation of established markets speeding up. It's time to put on an unhappy face.



Toiletries and cosmetics

By Barbara Ettorre

RECOVERY STOPPED SHORT of cosmetics and personal care companies in 1983. Sales of the creams and lotions renowned for their resistance against hard times failed to go back into high gear when those hard times eased.

Unit sales of personal care items—shampoos and conditioners, deodorants, shaving creams, home permanents and facial care products—advanced only about 2% to 4% in 1983, instead of a normal 4% in a good year. Cosmetics, from the high-priced department-store lines to cheaper lines sold in drug and variety stores, did not fare much better. Fragrances pre-Christmas were actually flat because consumers were well-stocked with old stuff and found a dearth of new, well-priced, exciting scents in the marketplace.

The prognosis isn't good, either. Earnings should advance around 5% in the first half of 1984, sales perhaps 8%. That's nothing like the automatic 10% to 15% annual growth rate in profits in the late 1970s, when cosmetics and personal care companies could almost do no wrong.

So what is wrong?

Simply put, the consumer is becoming less free with her money. She may still want cosmetics as much as she always did, but now she's being more careful about buying them. The change is beginning to look at least semipermanent. The rate of women entering the work force has slowed, so there are fewer new salaries to tap for big growth. The end of the so-called ME generation has meant more customers less interested in peer pressure, people who would rather not pay for glamour or prestige, either in the product or the store where they might buy it. "Consumers aren't so narcissistic now," sums up Allan G. Mottus, an industry consultant. Now what could be worse for a cosmetics company?

Companies somehow have to tease more of their sales growth from customers who have exhausted their at-home inventory, rather than from impulse spenders drawn to the latest hot item. This is a disconcerting prospect for the most hype-conscious of all manufacturing industries.

Bargain-hunting in the toiletries section of a discount drugstore

"Not so narcissistic now."

How has the industry reacted? Mostly by trying to keep list prices intact and the aura prestigious. But that has led only to more diversion. Diversion? High-priced, high-markup cosmetics are typically sold "exclusively" to toney retailers in order to keep up the product's image. But more than ever they mysteriously appear, diverted, on the déclassé shelves of Sly Sam's Cheap Stores at a large discount.

Couple this spreading practice with across-the-board reluctance on the part of prestige retailers to stock full inventories and tie up valuable cash, and you can certainly understand why manufacturers turn a blind eye knowing that middlemen are diverting merchandise.

The old ways don't seem to work anymore. Even imitation fails to pay as it used to. Now, "There are too many chickens out there, too many 'me-toos,'" explains Henry G. Walter Jr., chairman and CEO of International Flavors & Fragrances.

The days of 35 new fragrance introductions a year are also gone. It's too expensive now—advertising and marketing costs leaped at least 10% in 1983—and the consumer is less responsive. "Their lifestyles are more pluralistic," says consultant Mottus, "so a manufacturer's expenditures don't give enough return to warrant the cost." The audience for any single product is simply getting too segmented. So when Chesebrough-Pond's aggressively promoted its inexpensive Aviance Night Musk and

Cachet Noir women's fragrances in 1983, Chesebrough also saw the increased ad costs eat away most of the potential profits.

The international picture, historically profitable, is just as cloudy. Sales in Europe are soft, and in South America a disaster. (The collapse of raw material prices, raging inflation and precarious loan positions have staggered Latin America's heretofore reliable middle-class buying.) Clearly, such companies as Colgate-Palmolive, American Cyanamid and Kimberly-Clark are rethinking their international businesses—accounting for, respectively, 57%, 51% and 28% of profits as recently as 1982.

Under all this pressure, the manufacturers are fighting here at home to carve narrower niches where they think they can hold their own. The increased fragmentation of the market has the players themselves confused. Consider the shampoo market. The plethora of new brands finds some of the big guns like Procter & Gamble (Head & Shoulders brand), Revlon (Flex) and Gillette (Silkience) being pushed around by aggressive littler guys like Helene Curtis (Finesse).

The lure is too great: The American shampoo market is about $1.2 billion at retail. Even a 1% share means $12 million. And shampoo is an easy-entry category requiring no great capital investment, except formula and packaging—but ultimately, of course, heavy ad spending.

Redken Laboratories continues its pricey hold on beauty salon customers. Lamaur, a $75 million (sales) Midwest company, has a 2% market share with its Style shampoo and is introducing Perma Soft, a shampoo for permed hair. Altogether, scores of brands vie for a piece of the shelf space, and bigger companies worry. As William J. Ryan, president of Gillette's personal care division, says, "To the extent that smaller companies are segmenting the market, I have to think that this is making the business more competitive."

Segmentation may make money in the shampoo market. Not so in other areas. When does a new product begin to steal market share from an established brand? Some companies think they are better off pumping money into an established brand, avoiding the risk of wasting it on a flop. Gillette, whose Right Guard deodorant has earned $500 million in profits since its 1960 introduction, spent $30 million in 1983 to market an upgraded formula that stopped a protracted sales decline. In fact, ad budgets for all toiletries and cosmetics companies were up 24% for just the first six months of 1983. For 1984, concerns like Revlon, Gillette, Richardson-Vicks and Chesebrough-Pond's are boosting their marketing budgets for established brands alone by as much as 15%, figuring that a brand in the hand is worth two on the drawing board.

The results of the consumers' tightfistedness show up all too clearly in the accompanying tables. Six of the nine companies in this category saw their return on equity drop noticeably below their five-year averages. Some very noticeably—like heaviest loser Avon Products, whose traditional door-to-door business continues to find fewer women at home when the Avon lady rings the bell. And Revlon, whose ROE is half of its five-year average because of heavy advertising and flat sales for most of 1983. The few gains in ROE by Procter & Gamble, Gillette and Colgate-Palmolive were overshadowed by such declines.

Overall, this category's ROE fell in 1983 to 15.2%, from 17.7% in 1982, even though the median for all industries dropped only slightly, to 12.6%, from 12.7%.

Net profit margins, clustered for the most part below 7.4% (except for IFF's traditionally high return on sales), also dropped, from 6.7% in 1982 to 6%, even as the all-industry margin rose slightly, from 3.4% to 3.5%. But that was small potatoes compared to what happened to the five-year earnings-per-share average. That figure dropped from 12% in 1982 to 8.5%. The all-industry average also dropped, due to the recession, but less precipitously—from 12.3% to 9.4%.

Are there any bright spots? Body sprays—inexpensive deodorant-fragrance products popular in Europe—are being introduced by Lever Brothers, Gillette, Carter-Wallace and Fabergé. Gillette's Ryan estimates the category could produce a total of $70 million at retail in 1984.

Otherwise, the world of lotions and potions is not pretty. As Roger Shelley, Revlon's vice president of corporate affairs and investor relations, very unhappily summed it up: "It's becoming patently obvious that it's a matter of which marketer is taking shares from other marketers, not industry growth as a whole." ■

Toiletries and cosmetics

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				**Return on total capital**				**Sales**		**Earnings per share**	
Company	**5-year rank**	**5-year average**	**latest 12 months**	**debt/ equity ratio**	**5-year rank**	**5-year average**	**latest 12 months**	**net profit margin**	**5-year rank**	**5-year average**	**5-year rank**	**5-year average**
Avon Products	1	23.5%	14.9%	0.2	1	23.1%	11.7%	6.0%	3	12.1%	7	3.4%
Chesebrough-Pond's	2	21.3	19.2	0.2	3	17.5	16.3	7.3	2	14.3	1	13.4
Intl Flavors & Frag	3	21.3	19.7	0.0	2	20.1	19.0	14.5	6	9.7	4	10.4
Procter & Gamble	4	19.7	20.1	0.2	4	15.4	15.7	7.0	4	11.3	3	11.8
Gillette	5	18.7	19.7	0.4	5	13.9	14.2	6.5	8	8.3	5	8.5
Kimberly-Clark	6	17.9	12.0	0.2	6	13.9	9.5	5.3	5	11.2	2	12.7
Revlon	7	14.7	7.6	0.3	7	12.7	6.4	4.0	1	17.5	6	5.4
Colgate-Palmolive	8	14.3	15.2	0.2	8	11.7	12.6	4.1	9	7.5	8	2.5
American Cyanamid	9	11.5	9.7	0.3	9	8.9	7.9	4.3	7	9.4	9	1.8
Industry medians		**18.7**	**15.2**	**0.2**		**13.9**	**12.6**	**6.0**		**11.2**		**8.5**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.

Domestic cigarette sales may be trailing off, but even in a bad year tobacco profits are far better than anything else these companies buy into.

Tobacco

By John Merwin

THE NUMBER of cigarettes sold in the U.S. declined more sharply than ever in 1983, perhaps by as much as 6%—nearly 40 billion smokes—according to year-end estimates by R.J. Reynolds Industries. In 1984 unit sales, at best, are expected to be up slightly. Some observers suggest sales may be down again.

For the better part of two decades tobacco giants have been preparing for days like these by diversifying into soft drinks, beer, oil, steak sauce, liquor, food processing, insurance and shipping. Wall Street has applauded them for these efforts all the way.

Trouble is, the harder the tobacco companies try to diversify away from tobacco, the more they seem to earn selling cigarettes. Year after year tobacco majors have continued to earn the major share of their considerable profits from cigarettes. And 1983 was no exception. Philip Morris' cash flow ran about $1.2 billion, most of it from cigarettes, which account for about 60% of its assets. About half of Reynolds' $1.5 billion cash flow stemmed from tobacco (30% of its assets). Loews (owner of Lorillard) and American Brands, Inc., respectively the fourth- and fifth-largest domestic cigarette producers, still rank among the overall profit leaders on the Forbes Yardsticks, thanks to cigarettes. And this ranking comes despite the fact that Loews is principally an insurance conglomerate, while American Brands in recent years has channeled most of its $445 million annual cash flow into nontobacco businesses.

In fact, things are so bleak in tobacco that Philip Morris, which puffed past R.J. Reynolds to become the nation's leading cigarette producer, has been spending roughly $500 million a year on new tobacco production facilities and high-speed cigarette rolling machines. Number two Reynolds has launched a ten-year, billion-dollar capital improvement program for its tobacco operations.

Now, granted, even cash cows have to be fed now and then. But these are big numbers. Have PM and RJR lost their heads, throwing such good money into an obviously shrinking business? Hardly. Companies like PM and RJR haven't usually topped 20% on the Forbes return on equity Yardsticks below by making foolish investments, at least not in tobacco.

Fact is, if you have the market share, there's no business like a mature or even a shrinking business—if it's shrinking this slowly, and this lucratively.

In fact, reports of tobacco's death may be greatly exaggerated. Suppose, at the worst, U.S. cigarette sales in 1984 slip to 590 billion smokes, from about 600 billion in 1983. One reason for last year's decline undoubtedly is the unusually sharp federal, state and local tax increases tacked on in 1983. That helped drive up the price of a pack of cigarettes about 25%, depending on retail location. At most stores prices topped a dollar a pack. Given so

Tobacco

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Philip Morris	1	23.7%	23.7%	0.9	3	13.1%	12.4%	6.8%	1	18.6%	3	18.2%
Loews	2	22.5	22.2	0.5	4	12.6	14.1	5.8	3	11.9	1	21.8
American Brands	3	22.1	19.5	0.2	1	16.5	15.2	5.6	4	8.6	4	18.0
R J Reynolds Inds	4	20.1	16.1	0.3	2	14.6	11.5	5.6	2	16.0	5	10.9
Culbro	5	17.1	7.2	0.5	5	10.7	7.0	1.4	5	3.7	2	19.1
Industry medians		**22.1**	**19.5**	**0.5**		**13.1**	**12.4**	**5.6**		**11.9**		**18.2**
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.

extraordinary a price hike, the decline in unit sales in 1983 may have been only a momentary dip, rather than the beginning of a long-term decline.

Certainly, those manufacturers with commanding market shares don't sound worried. Frequent price increases generally cover inflation, and when you're selling 600 billion cigarettes a year, the leverage of a little price hike is tremendous. Says Philip Morris Chairman George Weissman, "On a dollar base per pack, if prices are increased 3%, that's only three cents to the consumer. But to manufacturers it's a billion dollars in available profit. So even if cigarette sales drop to 590 billion or 580 billion, we're talking minuscule changes."

Reynolds Treasurer John Dowdle points out that real earnings gains in tobacco come by increasing production efficiences and market share. Twenty years ago machines rolled only 1,200 cigarettes per minute. Today's state-of-the-art machines spew out 8,000 a minute. That's one reason cigarette operating earnings run about 15% to 20% of sales.

Despite Wall Street's concern about the future of tobacco, companies such as Reynolds and Philip Morris are still reaching for more market share. Blessed with megabrands like Winston and Marlboro, they enjoy distribution efficiencies that smaller tobacco players can't match.

Why go to that effort in an industry that has limited growth at best? Because the market leaders are planning to live off market stragglers and the faint of heart. Take Philip Morris, the purest of the major tobacco companies, with 60% of its assets, 67% of sales and 90% of operating profits in tobacco. Says PM Chairman Weissman, with a confident drag on a Players cigarette: "If anybody gets discouraged with tobacco, we will take on their share of market, their unit growth and their everything else." Weissman continues: "Look, in 1964 cigarettes were selling for about 28 cents a pack. Now they cost 3 or 4 times that, and our industry is still selling 25% more cigarettes. That isn't a brilliant record, but it isn't a bad one, either." Another point worth noting: Even though domestic sales are down, foreign consumption continues to move up, which bodes well for U.S. tobacco companies, especially if the dollar weakens.

Companies with smaller market share take a different approach. In effect, they are borrowing from tomorrow in tobacco, betting that diversifications will make up for sliding or stagnant cigarette market shares. American Brands has been among the most aggressive advocates of investing tobacco cash flow outside the industry. Last year the company spent about $550 million on acquisitions, while its tobacco capital expenditures totaled only $54 million. Of its nontobacco businesses, insurance, liquor and food products have shown the best returns. Recently American Brands struck a deal to acquire Southland Life Insurance for $352 million, an amount roughly equal to a year of domestic tobacco's operating profits.

For companies with stronger market share, however, diversification remains a mixed blessing, at best. While Reynolds enjoys good returns in oil, its 8% operating margin in food and beverages pales beside tobacco's 14%. Reynolds, which sees itself as a $13 billion consumer packaged goods manufacturer, is struggling with low margins in its Del Monte division. "I don't think we can change the fundamentals of the processed food business," explains Dowdle, "but we can use it as a building block to move into higher-value-added food businesses." The idea: Del Monte will become the conduit for Reynolds' higher-margined liquor, wine and grocery products, acquired 15 months ago in RJR's $1.6 billion purchase of Heublein.

Philip Morris' Weissman says he is willing to accept lower nontobacco returns "to keep an anchor to wind-

The smokes with no name

The most surprising development in cigarette marketing last year was the continued growth of generics. Generic cigarettes, which sell for $2 a carton less than "branded" smokes, are simply labeled "cigarettes" or, in major supermarket chains, bear private labels like Safeway's Scotch Buy.

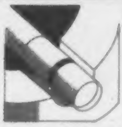
Generic smokes emerged four years ago after major supermarkets launched broad lines of generic goods—unbranded packages of peaches, paper towels and so forth—for consumers on a tight budget. Supermarket chains figured generic cigarettes might sell, too, and they were right.

After the first three years generic cigarettes captured 0.8% of the market. That may not seem like much, but it's considered a promising start in the tobacco business, where a mere 1% share means $180 million in retail sales. Surveys now indicate that in 1983 generic sales neared a 2.5% share, certainly a marketing coup.

Naturally, executives at Philip Morris and R.J. Reynolds doubt the staying power of generic cigarettes, assuming the recession lifts. After all, Madison Avenue has brainwashed consumers into thinking that their choice of cigarette is a strong statement about what kind of person they are. Smokers of Marlboros, for example, are told that they are saying, "I'm the rugged individualistic type," while those who puff the newer Players are supposedly saying, "I'm a swinger." Who would want to make the cheapskate statement of plopping down a pack of less expensive Scotch Buy smokes at the local tavern? Answer: more people than anyone suspected.

Happiest about the generics' success is Liggett & Myers, a onetime cigarette powerhouse that faded with its old-line brands, L&M, Lark and Chesterfield. Today nearly all of the country's generic cigarettes are rolled in Liggett's Durham, N.C. factory. Buoyed by rising generic sales, Liggett is now test-marketing two new nongeneric brands and is even trying to revive the once-strong L&M franchise. That's a tall order for Liggett, which even with generics has only a 4.2% toehold in the cigarette marketplace. Nevertheless, Liggett Marketing Vice President Hal Grant says the company's parent, London-based conglomerate Grand Metropolitan, is pleased with Liggett's revival and is backing the company with all the dollars it needs. And Grand Metropolitan, which makes part of its living making book at the racetracks, ought to know a good bet when it sees one.

Smokers try Liggett's generics initially because of the 20-cents-a-pack saving, says marketing director James Dowd, then stick with them when they discover the quality is up to that of regular brands. But what about the absence of "image" or "personal message" when smoking generics? Says Dowd, "Generic smokers are making a personal statement, all right: 'I don't have to subsidize billboards.' "—J.M.



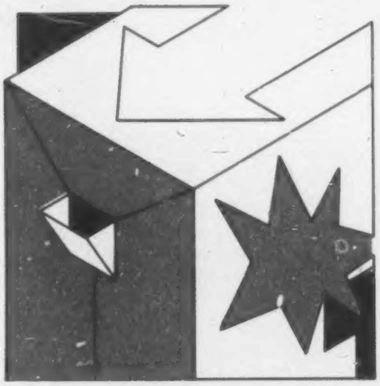
ward." In order to invest in both tobacco and diversification, PM carries $3 billion in long-term debt. Weissman bristles at suggestions that PM's $2 billion investment in Miller Brewing, with its wobbly 5% operating margins, has done little for the company: "Our entire investment in beer at this point is under $500 million on the intracompany account because of Miller's earnings flow, depreciation and tax credits. And this year we'll make over $100 million in beer."

But what about the $500 million PM sank into Seven-Up that is returning almost nothing? Dr Pepper, which is in similar shape, is on the block. "I don't know if we can make Seven-Up work," Weissman says. "It depends on the extent to which Coca-Cola wants to drive out everybody else and also on who has the staying power." PM has staying power, but is it worth the trouble?

Why not reinvest that billion-dollars-plus cash flow in tobacco directly, or at least indirectly, by buying back the company's relatively cheap stock, selling recently at 10 times earnings? Wouldn't that $2 billion invested in Miller over the last 13 years have brought a better return in T bills? "We are operating people," Weissman says. "We are not bankers. We are not money market swingers like Baldwin-United, which had a lovely piano business. Sometimes we may not act in the shareholders' best short-term interests. But anyone who looks at the company's 20-year record will see that in the long term we have acted in their best interest."

It's hard to quarrel with that. ■

Glass is out, plastics are in—as long as the price of oil stays as depressed as it is. Meanwhile, shifting assets is costly for the packagers.



Packaging

By Ellen Paris

REMEMBER the party scene in the 1967 film *The Graduate* in which a well-intentioned executive gives some career advice to young Dustin Hoffman: "Plastics!"?

Well, we have come full circle since the late Sixties. With the price of oil depressed at the moment, petrochemical-based plastics are once again returning to haunt packaging companies still dependent on glass. In the all-important soft-drink market, glass dropped from a near 60% of the market in 1977 to around 44% today and is still falling. At the same time plastics has climbed from virtually nil in 1977 to about 22% today.

"We think plastic has preference over glass today, and we don't want to fight the trend," says Robert Lanigan, president of Owens-Illinois, often dubbed a pale blue chip because of its persistently anemic profitability. As the nation's largest glassmaker, O-I's five-year average ROE at 8.6% has barely kept pace with inflation. In 1983 Lanigan established a $28 million aftertax reserve against costs of closing a portion of O-I's glass capacity. He will concentrate instead on expanding the company's plastics division, which makes plastic containers for the food, cosmetics, pharmaceutical and beverage industries and which will account for 25% of O-I's business in 1984, vs. 16% the year before.

The same costly asset redeployment is happening at most other glass companies on the Yardsticks rankings. Once highly profitable Brockway, Inc. (NY)—based in Brockway, Pa. and one of the country's largest glassmakers—with around 80% of its sales tied to glass, has earned on average just 7.3% on shareholders' equity over the last five years. Take out inflation and you get red ink. In 1983 it earned no more than 4.5%—as pitifully inadequate as the interest on your savings account. Clobbered over the last few years when its major customer, Miller Brewing, began switching more of its premium beer packaging from glass bottles to cans, Brockway threw in the towel. Not only has it closed and written off a glass bottle plant in Washington, Pa., it is being very selective rebuilding its glassmaking furnaces. It is redirecting some of its cash flow to its profitable commuter airline division, including Crown Airways, Clinton Aero and Air North, which serve several northeastern markets. That's spelled DEFEAT.

It's the same story at ever-mediocre Anchor Hocking. Management cashed in its chips last year and sold its glass container operation in a leveraged buyout to Wesray Corp. Some of the proceeds were used to pay off short-term debt. Anchor Hocking President and CEO J. Ray Topper is undecided about what he will do with the rest of the $52 million in cash. "We kept throwing money back into glass," explains Topper, belaboring the obvious, "but it wasn't throwing off enough cash."

So why is Ball Corp. hanging right in there at the top of the industry Yardsticks? Everyone knows that Ball, as in Ball jar, is a glassmaker. Yet there it is with an unbeatable 12-month return on equity of 16.2%, nearly three times the packaging industry median. The answer, of course, is that Ball saw plastics coming and did something about it. For several years Ball has been diversifying away from glass and into the aerospace industry. Ball supplies technical products, like satellites, electro-optical sensors and antennas to NASA and the military. The company also provides copperplated zinc blanks to the federal mint, which turns them into pennies. In this niche, Ball is—figuratively and almost literally—coining money.

Niche-hunting also explains the successes of New Hampshire-based Tyco Laboratories and Sonoco Products. Tyco makes automatic fire sprinkler devices, printed circuit boards, underwater communications cable and flexible packaging materials. Sonoco is a specialty producer of composite cans, plastic grocery sacks and wooden spools for wire and cable. If that sounds boring, note that Sonoco, with very little debt, earned over 14% on shareholders' equity last year, second only to Ball.

For the big packaging companies, with so much of their assets committed to glass, the plastics challenge is no joke. The assault began in a small way after World War II in stopett deodorant packages, and in the early Sixties gained momentum in the bleach market. But it really gathered force in 1977, when the two-liter PET (polyethylene terephthalate) bottle, aimed at soft drinks, was introduced.

Prior to the introduction of the PET bottle, Monsanto in 1973 came out with a plastic soft-drink bottle. It was made with a material called Lopac, which was believed to contain possible cancer-causing agents. It was subsequently taken off the market. The PET bottle was developed using a different resin that has not caused any problems with the FDA. The PET bottle protects against light and climatic changes; however, all the printing is done on an attached label and not directly on the bottle. From nothing, two-liter PET bottle shipments rose to about 500 million units in 1978, and to 2.5 billion in 1982.

There are signs of overcapacity in the two-liter PET market: Prices have been soft. But the fact remains that Dorsey Corp. (sales: $450 million), which has been able to hang on to about 30% of that market, earned nearly 14% on equity in the latest 12 months. That's an impressive improvement on its five-year average and better than twice the industry average.

The new bottle laws are yet another headache for glassmakers. In New York State, retailers must now charge a minimum five-cent deposit on every soft-drink or beer container sold. The retailers must then refund that nickel on every container brought in. This is a major headache for the retailers, who must inventory the old containers. To ease the pain, they can be expected to stock lighter-weight cans and plastics that don't break—in place of glass, which does.

Plastics have been less successful competing with metal cans. In the soft-drink market in 1983, plastics' 22% market share pared that of metal cans from 30% in 1977 to 26%.

This could change, however. In 1981, Dorsey began shipping a half-liter (16.9 ounce) PET bottle. This would undoubtedly have chipped away at both glass and cans had it not been for production snags that kept its price around 20% above glass' price. But most of the production problems have been worked out, and the smaller PETs' volume should increase in 1984. Again, the company to watch is little Dorsey, which has 50% of the half-liter PET market.

Although Owens-Illinois has a chunk of the PET market, for the most part the old-line companies find themselves out in the cold, sweating off uneconomic assets. Continental Group, which over the last five years earned a respectable 12.5% return on equity, has unloaded $1 billion worth of assets over the last two years. "We have finished cutting the barnacles off our hull and we're ready to set sail," says Continental Chairman and CEO Bruce Smart. Also in CG's writeoffs was its two-liter PET bottlemaking business, allegedly because Smart thinks the PET bottle has already reached the saturation point. Continental, says Smart, will concentrate on more specialized, and less competitive, plastic products like household and food containers. Smart also plans to expand Continental's growing life insurance subsidiary, which has over $1.7 billion in assets.

Heavily leveraged American Can, with a dismal 4.3% five-year-average return on equity on the industry Yardsticks, is also redeploying assets—for obvious reasons. It is concentrating

Packaging

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Tyco Laboratories	1	26.5%	13.2%	0.6	1	14.5%	8.9%	3.4%	1	31.2%	1	21.6%
Sonoco Products	2	16.9	14.2	0.2	2	13.8	11.4	4.8	3	15.5	3	12.3
Ball Corp	3	16.5	16.2	0.5	3	10.8	11.0	4.3	4	14.0	2	13.3
Stone Container	4	14.7	1.6	0.8	7	8.6	1.4	0.6	7	10.8	6	6.7
National Can	5	12.6	5.5	0.4	5	9.1	4.8	1.2	8	9.7	4	10.6
Continental Group	6	12.5	9.5	0.5	6	8.8	6.9	3.6	12	7.4	5	7.2
Crown Cork & Seal	7	12.1	7.9	0.0	4	10.6	6.9	3.3	10	7.5	7	6.2
Dorsey	8	9.9	13.6	0.5	8	7.4	10.2	2.6	2	15.5	8	6.0
Bemis	9	9.6	6.0	0.4	9	7.1	5.5	1.5	14	2.0	9	5.0
Owens-Illinois	10	8.6	2.6	0.4	10	6.3	2.9	1.0	10	7.5	10	1.6
Brockway Inc (NY)	11	7.3	4.5	0.3	11	6.0	4.2	1.2	5	12.0	11	–4.1
Anchor Hocking	12	7.1	def	0.3	12	6.0	0.1	def	9	8.0	12	–5.8
American Can	13	4.3	6.7	0.7	13	4.2	6.5	2.3	13	6.0	13	–17.7
Kerr Glass Mfg	14	1.5	def	0.5	14	4.6	def	def	6	11.9	14	–36.9
Industry medians		11.0	6.4	0.5		8.0	6.0	1.9		10.3		6.1
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
def: deficit.

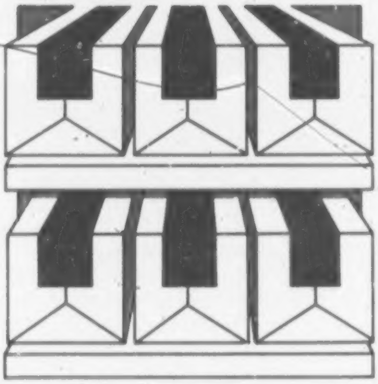
on multilayer plastic bottles for such customers as Heinz ketchup. American also produces laminated tubes for toothpaste, and has begun marketing chewing-gum-in-a-tube, Pubble Gum, for Wrigley. But don't expect overnight growth. However, says Dave Parker, executive vice president in charge of American Can's $2.2 billion packaging business: "We are looking at the medical and pharmaceutical areas for immediate growth." Meanwhile, recently appointed Wall Street-bred Vice Chairman Gerald Tsai Jr. has been adding to American's trendy financial services segment *(see* Forbes, *Sept. 12, 1983),* and major acquisitions outside of packaging, financed by the sale of existing assets, are a distinct possibility.

Compare that with National Can, which for the last five years has a return on equity three times that of American Can. It has done so by sticking to and improving on the packaging businesses it knows. Trendy acquisitions? National Chairman and CEO Frank W. Considine paid a rock bottom, below book $58 million for four glassmaking plants from Kerr Glass in September. After all, the price of oil, and hence plastics, won't necessarily stay depressed forever. Around 50% of the Kerr plants' capacity was dedicated to Anheuser-Busch. National expects to sustain those sales levels. A natural for National, which already did a substantial can business with Anheuser. Says Considine: "We figured that, since many are deemphasizing glass, now is the time to buy in." Considine is betting that a declining commodity market becomes in time a specialty market. "We see beer as the last beverage to go plastic," he says.

Considine may be right. But for now the advance of plastics looks unbeatable. Plastics captured a large segment of the edible oils markets last year. Next is booze: Jim Beam recently began offering consumers in New Jersey, Nevada and Arkansas bourbon in a 1.75-liter plastic bottle from Continental Group. Several California vintners are testing wine in three- and four-liter plastic jugs. "Plastics," says Merrill Lynch's Palm, repeating *The Graduate's* exec, "has the potential to take over everything."

For a while, anyway. ■

It costs more and more money to stay alive in the wholesaling game. And so the wholesalers dwindle down. . . .

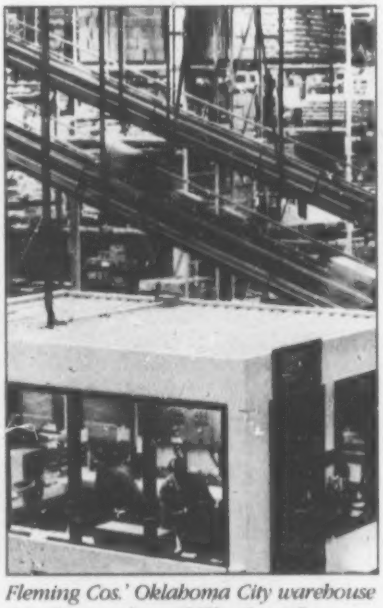


Wholesaling

By Richard Greene

For wholesalers productivity isn't meaningless cant that is bandied about by corporate consultants who really don't know much about running a business. It is what you do when you need to survive. In a business where profit margins generally run around 1%, there isn't much room for error.

No surprise, then, that cost-cutting efforts among wholesalers seem to have been rewarded in 1983. It was a year in which a practically nonexistent inflation rate for food products—certain products like pork and chicken even saw a certain amount of disinflation—combined with 5% or 6% increases in costs to squeeze many food wholesalers. "We're dealing in small fractions because of our margins," says Robert Cohn, chairman of CFS Continental. "If there was no inflation in product line or operating expenses, then we'd be okay. But when operating expenses are going up and the products you sell do not. . . ."



Fleming Cos.' Oklahoma City warehouse
An electronic umbilical cord.

Yet medians on both return on equity and return on total capital dropped a minimal tenth of 1%. While a few firms, notably Farm House Foods and its 51%-owned Scot Lad Foods—two of the highest debt-to-equity ratios in the industry—suffered greatly, most of the rest emerged from the year in good shape.

A quick glance at 1982's industry rankings shows that the food wholesalers racked up a median 0.8% net profit margin, the exact margin the industry showed in 1983. So, although productivity gains in this industry may not have shown themselves with crystal clarity this past year, they were there. They had to be, for the industry to make up that extra 5% or 6% in costs.

"The security analysts see a falloff and are concerned," sums up Richard Harrison, chairman of Fleming Cos. "But what they don't realize is that the bottom line has improved because the real dollar gain is higher today than it was a year ago. A 5% gain on a zero rate of inflation is better than an 11% gain and 10% inflation."

A point many investors and more Wall Streeters carelessly overlook. Somehow it takes a businessman to home in on the difference between taking in real money and writing up bookkeeping profits.

Meanwhile, even some of the firms on the low end of the Forbes Yardsticks are optimistic about next year. Jack Twyman, chairman of Super Food Services, which is ninth on our list based on five-year return on equity, but had the second-highest return on equity for the latest 12 months, can hardly get himself to talk about anything but confidence: consumer confidence, retailer confidence, wholesaler confidence. "We're seeing reluctance to invest at retail ebbing," he says. "While our customers have put off capital expenditures over the last few years, they feel now is the time to expand their locations and invest in the future of their business."

Economic recovery seems to be rippling through the types of items wholesalers are moving. "It's going from the lower-priced products to the higher-value, higher-quality products," says Harrison, whose Fleming Cos. is a $5 billion food wholesaler based in Oklahoma City. "From the lower-priced frozen food dinner to the higher-priced, quality frozen-food dinner; from less expensive breads to more expensive baked goods."

All this portends higher volume, of course. But consumer sentiments are not the most durable evidence of good times to come. Improved labor contracts may be a somewhat longer-lasting bit of good news for the wholesalers. Contracts signed in the past year or so promised annual increases in the neighborhood of 4%, compared with almost 10% only three years ago. "That's a significant insurance policy for the future," says Harrison of Fleming Cos. "It's our single largest cost-saving factor," agrees Cohn, of billion-dollar-plus CFS Continental.

Still, after getting labor to accept lower wage increases, the next productivity gains are somewhat harder to come by. And a recovering economy is not enough by itself to spell success in this business. Think about it. If a firm has margins of 1% and it can pick up 5% of real, after-inflation growth, it's doing pretty well. But a 0.1% increase in its margins will bring twice that much profit to the bottom line. Clearly the route to real success is to increase margins at the same time as revenues.

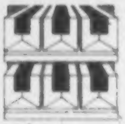
For most wholesalers, future productivity gains seem to lie in the improved use of computers. Inventory turnaround is critical, and wholesalers are concerned about picking up not just weeks or days, but hours. To that end, most of the large wholesal-

Wholesalers

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Food distributors												
Super Valu Stores	1	26.8%	22.6%	0.6	1	18.5%	16.2%	1.3%	5	15.5%	2	20.4%
Sysco	2	19.7	18.2	0.4	2	15.4	13.9	2.0	2	18.6	1	20.7
Fleming Cos	3	18.2	17.1	0.6	5	12.8	11.1	0.8	7	13.6	6	11.7
Malone & Hyde	4	17.5	19.0	0.4	3	13.5	14.7	1.3	6	15.1	7	10.0
Flickinger	5	16.2	17.4	0.6	4	13.2	12.5	0.8	9	11.7	4	13.0
Nash Finch	6	14.4	13.4	0.4	6	11.5	10.9	1.0	10	10.7	9	5.0
CFS Continental	7	13.1	14.8	0.7	8	9.5	10.7	1.4	8	12.4	5	13.0
Wetterau	8	13.0	14.6	0.5	7	10.2	10.3	0.8	3	16.1	10	2.0
Super Food Services	9	12.8	19.3	1.3	10	8.8	10.0	0.5	4	15.6	8	6.3
Farm House Foods	10	10.5	1.3	1.9	9	9.4	6.8	0.0	1	38.7	12	–4.7
Pac Gamble Robinson	11	8.9	6.3	0.8	11	7.7	6.4	0.4	11	7.5	11	–3.0
Di Giorgio	12	8.0	5.4	1.0	12	6.2	4.8	0.7	12	5.9	3	14.3
Scot Lad Foods	13	3.8	def	1.1	13	4.4	2.3	def	13	1.9		D–P
Medians		**13.1**	**14.8**	**0.6**		**10.2**	**10.7**	**0.8**		**13.6**		**10.9**
Other wholesalers												
Phibro-Salomon	1	36.5%	25.1%	0.4	1	28.1%	19.0%	1.5%	1	31.3%	2	29.3%
Bergen Brunswig	2	19.5	19.4	0.6	4	15.2	15.4	1.3	3	19.8	1	40.6
Std Comml Tobacco	3	19.4	13.9	0.3	2	16.3	13.2	2.1	2	22.7	6	12.7
Universal Leaf	4	19.0	17.8	0.2	3	15.8	13.9	3.6	11	7.6	5	14.6
Alco Standard	5	18.0	14.3	0.4	6	13.1	10.8	2.0	4	16.4	7	10.1
Amer Hospital Supply	6	17.1	18.2	0.1	5	15.0	16.3	6.8	5	15.1	3	15.4
Dibrell Brothers	7	15.4	20.4	0.3	8	12.1	13.8	2.9	8	9.0	4	14.7
McKesson	8	15.3	12.8	0.5	9	10.6	9.6	1.5	10	8.0	9	6.1
Univar	9	14.8	7.2	1.1	10	9.7	5.9	0.7	9	8.4	8	8.7
Lowe's Companies	10	14.7	19.5	0.3	7	12.1	16.2	3.2	6	11.7	10	4.9
Amfac	11	8.4	def	0.8	11	6.3	def	def	7	10.2	11	–2.1
Medians		17.1	17.8	0.4		13.1	13.8	2.0		11.7		12.7
Industry medians		**15.4**	**16.0**	**0.6**		**12.1**	**11.0**	**1.3**		**13.0**		**11.7**
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
D–P: deficit to profit; not ranked. def: deficit.



ers have installed complex inventory control computers, not only in their own operations, but in their clients' operations as well. When the store manager at your local supermarket decides he needs to order Wheaties, he doesn't have to talk with anyone. He just waves an electronic wand over the product label on the shelf, and then uses the telephone lines to relay that order to the wholesaler. With such instantaneous ordering the wholesaler can anticipate his customers' needs much more effectively. In addition, he doesn't have to keep quite as much in stock and saves on his financing expenses.

There's even another, less obvious advantage to the wholesalers in linking up directly with their customers: It cements the marriage between wholesaler and retailer. Ten years ago, a retailer could change his supplier at the drop of a price. Now, however, if he's put all sorts of time and money into developing an electronic linkage, he's not going to make a switch quite so frivolously.

Trouble is, all this technology is pretty expensive, especially to a business where even a giant like Super Valu Stores earns under $80 million. As a result, the shakeout in wholesaling continues, since small companies cannot stay competitive and large firms are only too glad to grab up more market share.

The numbers are staggering: In the last ten years, the number of wholesalers able to serve the supermarket industry has gone from some 1,000 firms to only about 400 according to Walter Heller, research director of *Progressive Grocer*, a trade journal. Says Cohn, "The ongoing move toward consolidation is directly related to the financial capabilities of small companies. If we invest half a million in software programs, we can amortize that over a billion in sales. It's pretty hard to invest half a million when you're only doing $8 million in sales."

"I get calls almost on a daily basis," says Fleming's Harrison, an active buyer of wholesaling operations, "from smaller wholesalers who just can't make the investment to stay competitive." ■

Vicious circle: The supermarket chains build bigger stores, which need more volume, which means cutting prices, which then crimps profits.

Supermarkets

By Richard Greene

IF YOU EAT, the good news is that food prices went up only 1% for the 12 months ending in October, about one-third the percentage increase in the Consumer Price Index. If you follow the supermarket business, the bad news is that one of the reasons for the small price jump in food is that supermarket owners held down prices, which cost them profits.

BUTTER 99
APPLE SAUCE 99
ORANGE JUICE 89
CHEESE PIZZA 89
SHOULDER BUTTS
VEAL CHOPS 2 59
SLOANS

Front window of a New York supermarket
"You cut prices to meet someone else, and . . . you're down the sewer."

Return on equity, the Forbes Profitability Yardsticks show, declined in the latest 12 months against the five-year averages for most major and regional chains, including four of the top five majors and all the top five regionals. The problem seems to be that the supermarket chains invest heavily in new stores, giant stores selling everything from corned beef to caviar, from jeans to jacksaws. They need huge volumes to make these properties pay. Since a new store doesn't create more volume per se—nobody eats more because Safeway opens a store in the neighborhood—it means business must be gotten by luring customers from older stores, and cutting prices is the easiest way.

It can work. Stop & Shop stores in Connecticut were giving away a can of tuna fish and a roll of paper toweling with every order of $7.50 or more. Stop & Shop also recorded an impressive profit surge, running 22.3% return on equity in the latest 12 months, against a 17.1% five-year average. But the price wars last year generally are blamed for the relatively poor showings in the industry.

That is not to say that there were many disasters in the industry in 1983. Industry medians were down only slightly, with a fair number of success stories to be found. A&P seems to be turning around again, although poor past performance keeps it in its now-traditional spot at the bottom of the Forbes rankings. American Stores jumped from fourth place to first on the list, as its combination stores, which emphasize nonfood items, helped push up margins. At the same time, Lucky Stores, the $8 billion (sales) California-based chain, saw its return on equity for the latest 12 months jump from 16.5% in 1982 to a healthy 21.1% in 1983.

Ironically, only a year ago Warren McCain, chief executive officer of Albertson's, a major chain headquartered in Boise, said: "All the retailers are a little smarter now, and I guess none of them can afford the price wars of the past." That may have applied to Albertson's, but McCain was wrong as far as the industry was concerned. That's because of the pressure that

Supermarkets

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Major chains												
American Stores	1	23.6%	25.6%	0.7	2	15.5%	14.2%	1.3%	1	52.8%	1	23.2%
Albertson's	2	22.4	19.0	0.6	4	13.6	13.0	1.5	3	16.9	3	16.9
Lucky Stores	3	22.0	21.1	0.7	3	13.7	13.5	1.4	4	14.9	9	8.3
Supermarkets General	4	21.0	19.3	0.9	5	11.8	12.1	1.2	7	11.3	2	21.6
Winn-Dixie Stores	5	20.2	19.2	0.2	1	17.4	16.9	1.6	6	12.1	8	10.4
Stop & Shop Cos	6	17.1	22.3	1.2	9	10.0	11.5	1.6	10	8.1	6	14.0
Jewel Cos	7	17.0	16.4	0.6	7	10.7	10.3	1.5	8	9.9	4	16.7
Southland	8	17.0	17.4	0.8	8	10.5	11.5	1.7	2	21.0	5	14.9
Kroger	9	15.8	11.8	0.7	6	11.0	9.3	1.0	5	13.0	7	13.9
Safeway Stores	10	13.4	14.5	1.2	10	8.7	8.9	0.9	9	9.3	10	3.7
Great Atl & Pac Tea	11	def	8.0	0.8	11	def	6.5	0.5	11	–3.7	11	D–D
Medians		17.1	19.0	0.7		11.0	11.5	1.4		12.1		14.0
Regional chains												
Big Bear	1	48.9%	35.9%	1.5	4	16.4%	17.3%	1.4%	11	12.6%‡‡	4	30.2%‡‡
Bruno's	2	35.3††	28.8	0.2	2	23.5††	22.3	2.6	4	18.3‡	3	31.9‡
Food Lion	3	31.5	26.9	0.2	1	25.7	21.2	2.4	1	32.1	5	28.9
Natl Convenience Stores	4	27.5	23.1	1.6	6	13.5	11.1	2.3	3	19.6	7	24.4
Big V Supermarkets	5	23.3	18.2	0.5	5	15.8	12.5	1.3	6	17.5	8	21.5
Cullum Companies	6	21.4	16.8	0.9	7	12.5	10.7	1.2	9	13.4	6	25.3
Weis Markets	7	20.6	19.6	0.0	3	20.6	19.5	5.6	13	12.5	14	15.6
Pneumo	8	20.4	27.2	0.7	9	12.2	14.1	2.7	7	15.3	11	16.9
Giant Food	9	19.7	22.3	0.7	8	12.3	14.4	2.0	10	12.7	10	18.5
Hannaford Bros	10	19.5	20.2	1.0	10	11.0	13.1	1.5	17	11.1	15	14.4
Circle K	11	17.4	27.9	0.7	11	10.7	16.3	2.3	4	18.3	19	7.4
First Natl Supermkts	12	17.3	16.6	1.5	18	9.2	9.3	0.6	2	20.9	16	13.0
Waldbaum	13	15.9	15.9	0.9	12	10.6	10.7	1.0	12	12.5	12	16.5
Seaway Food Town	14	15.7	9.6	1.0	15	10.3	7.1	0.7	14	12.4	17	12.2
Marsh Supermarkets	15	15.7	9.4	1.2	17	9.3	6.5	0.7	19	11.0	18	11.6
Ruddick	16	14.7	15.0	0.6	14	10.3	10.8	2.0	16	11.2	13	16.3
Thriftimart	17	12.3	7.5	0.2	13	10.5	6.7	0.9	22	7.3	2	38.3
Penn Traffic	18	12.2	13.0	0.6	16	9.6	9.6	1.4	8	13.7	21	3.3
Munford	19	11.4	13.6	0.7	21	7.4	10.1	1.6	24	3.5	9	20.6
Godfrey	20	11.0	6.1	0.8	20	8.1	6.0	0.4	18	11.1	22	1.4
Arden Group	21	10.0	6.4	1.2	22	7.1	6.0	0.4	25	0.0		D–P
Pueblo International	22	9.3	7.6	1.2	23	7.1	6.0	0.6	26	–2.0		D–P
Shopwell	23	9.0	10.5	1.3	24	6.7	7.7	0.5	20	10.6	1	163.0
King Kullen Grocery	24	8.7	11.1	0.0	19	8.1	10.2	0.7	15	12.1	20	5.4
Fisher Foods	25	8.0	3.4	0.4	25	5.2	3.4	0.5	27	–5.3	23	–9.6
Foodarama Supermkts	26	2.2	3.8	0.7	26	4.1	5.4	0.2	23	4.6	25	–26.1
Borman's	27	1.5	0.8	0.8	28	3.1	2.5	0.0	21	9.1	24	–25.3
Allied Supermarkets	28	def	4.0	0.2	27	3.5	5.9	0.5	28	–8.7	26	D–D
Pantry Pride	29	def	NE	1.4	29	def	6.3	0.7	29	–14.6	26	D–D
Medians		15.7	13.6	0.7		10.3	10.1	1.0		12.1		15.6
Industry medians		16.5	16.2	0.7		10.5	10.5	1.3		12.1		14.7
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
††Three-year average. ‡Four year growth. ‡‡Three-year growth. D–D: deficit to deficit. D–P: deficit to profit; not ranked.
def: deficit. NE: negative equity.

has been building for several years now with the emphasis on larger and larger stores. Five years ago the average supermarket was 25,000 square feet. Today the average is more like 3[illegible]00. Kroger's latest prototype is 45,000. The game then becomes one of grabbing volume away from your competition, which, as noted, inevitably leads to price-cutting.

What's more, the $6 million-to-build superwarehouse store, up to 60,000 square feet and boasting little service and the lowest prices, sets off violent price competition wherever it appears. When Super Valu Stores, a food wholesaler, opened one of these warehouse stores, dubbed a Cub Foods store, in Green Bay, Wis., 15 other supermarkets closed within a few months, according to Robert Grottke, of Arthur Andersen, who follows the industry.

"The problem of grocery retailers seems to be that they overreact to competitive situations," says Wallace Iott, chairman of Seaway Food Town. Of course, anyone who doesn't react might be out of business, too. "People cut prices to meet you, and you cut prices to meet someone else, and pretty soon you're down the sewer. It boils down to the fact that the borderline store which is tightly financed will be hurt in these battles."

California-based Thriftimart, a $503 million (sales) firm with half its sales in supermarkets and half in food wholesaling, is considering getting out of the retail business. "In this market over the last two years it's been almost exclusively a price war," says Roger Laverty III, the company's vice president. "In the areas of advertising and operating efficiencies we cannot possibly match the 100-store chains. It's been very tough for us, and we feel we should be concentrating on the other end of our business."

One answer to the price war has been to sell higher-priced or higher-quality goods—bakeries, fish departments or gourmet foods, all within the supermarket. "Whether customers are from high income, middle income or low income, they like the idea," says Alvin Dobbin, senior vice president-operations for Giant Food, a Washington, D.C. chain that emerged from some vicious competition a couple of years ago with its market share up from 32% to 40%.

The difficulties begin when you have to man these upscale counters. Says one East Coast supermarket executive: "The problem with a high-service store is that, for every incremental dollar of sales, you also have an incremental cost to achieve it. These stores have added an expensive labor component to these operations and I think they'll start retrenching."

"If you can generate enough volume and price properly you can cover cost," replies Giant's Dobbin. "It's not inexpensive, but it's the kind of thing that can generate volume."

Why the different approaches? Because the marketplace is changing quickly and there may be no single way to deal with the change. Iott of Seaway Food Town, for example, says: "With so many women working, we find a lot more men shopping than normal, which we don't like. Men have a tendency to buy what their wives tell them to buy. Women are better impulse shoppers. The best shopper is a man, wife and children. The kids might throw a box of candy or cereal in the cart, and the husband throws in a six-pack of beer and a salami. But the man on his own follows the shopping list."

Is that really true? Who can tell? What is certain is that people have to eat. After that, it's anybody's game. ■

Bottle babies

Last fall New York became the ninth state to pass a so-called bottle bill, which requires a deposit on all cans and bottles for soft drinks and beer purchased in the state. The environmentalists rejoiced. Now, they hope, New York will be a cleaner place, as an incentive is created to keep old bottles and cans from littering the streets and sidewalks.

But New York City's supermarkets aren't rejoicing. "It's a disaster," says Howard Tisch, executive secretary of the Greater New York Metropolitan Food Council. "There's time required for the sorting procedure, the bottles take a substantial amount of space, and you have sanitary problems."

Still, the storemen are complaining about something they used to do without complaint. Before the creation of no-return bottles, most containers were returned. The retailers' answer: Bottle sorters didn't cost $5.50 an hour in the old days.

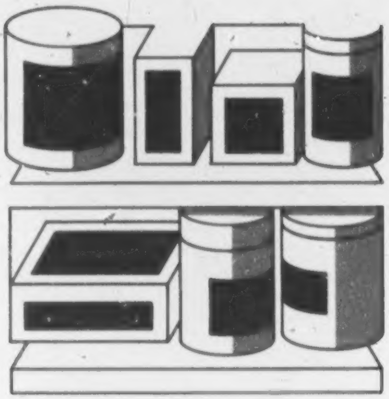
For every bottle or can redeemed—and there were over 3 billion containers sold last year in metropolitan New York—a store gets back 1.5 cents from the bottler. The supermarkets say it costs them more like 3 cents to redeem each bottle or can. If that sounds like small change, look at one New York retailer, Shopwell, which has 64 stores in New York and Connecticut, another bottle-bill state. Shopwell says it redeems about 800,000 containers a week, which amounts to over 40 million a year. Multiply that times a penny and a half per container and you have a cost to the chain of $600,000, and Shopwell earned only about $1.4 million in 1983's first three quarters.

Carting off returned bottles and cans
1.5 cents a bottle is hardly enough.

Says Glen Rosengarten, the firm's chief operating officer, "Everyone loses all the way around. The beverages ultimately cost more money to the consumer. It's a dead loss to us, and a real economic burden."

But then, possibly, Mr. Rosengarten never got a flat tire on a cold winter's night after having run over a beer bottle in the street. Bottle laws are probably here to stay, and retailers would do well to find ways to cut the costs of collection.—R.G.

"A close attention to your shop and application to business will always secure more than an equal share because every competitor will not have those qualities."



Retailing

By Howard Rudnitsky

IF 1983 WASN'T THE BEST of times, it was a reasonable facsimile. Fueled by the economic recovery and growing consumer confidence, dollar sales in the nation's major general retailing chains showed gains of 15% and better over the year before. Better yet, the dramatic slowdown in the push on costs and lower interest rates, which slashed the costs of carrying inventory, produced a profit bonanza. The median returns on equity and total capital in the last 12 months, the Forbes Yardsticks show, were running more than 10% ahead of the five-year averages and far ahead of all industry performance. And the end isn't in sight.

SEARS FINANCIAL NETWORK

Selling sofas and security at Sears
At last, all systems go!

At Sears, Roebuck, Edward Brennan, chairman of the $23 billion (sales) merchandising group, beams: "Our durable goods business, particularly appliances, has been strong all year. Since October the strength has spread to all our major lines of business. It's the first time in more than two years that has happened. There is no question business is a lot better than a year ago, and we expect it to stay that way in 1984 as well."

In only nine months of 1983 Brennan had pushed merchandising profits (excluding credit interest earnings) to $320 million, or 200% ahead of the year before, and record profits for the year ending Dec. 31 are as good as gift wrapped after a merry Christmas at Sears' 816 department stores.

"When you've streamlined your operations and improved many things, as we have in the last couple of years, and then when you get the volume to go with it, there's a great deal of leverage in our business," Brennan says. Among those improvements: product lines like computers and financial services and a heavier inventory of the higher-margined goods Sears wants to sell instead of a little of everything. Brennan also plans to spend $1.7 billion over five years and make over his 600 full-line stores so they project today's popular specialty-shop look.

The nation's largest discounter, K mart, with sales pushing toward $19 billion in the fiscal year ending Jan. 31, 1984, and profits probably doubling last year's $262 million, is also trying to upgrade its image, with refurbished stores and more nationally branded merchandise.

But leading the pack in sales gains among the billion-dollar-plus chains, as usual, was Sam Walton's discount juggernaut, Wal-Mart. His 642 stores in small cities and towns in 19 southern and midwestern states are chalking up a 35% sales gain, to push past $4.5 billion, and probably a 50% earnings increase on top of the sizable increase recorded in the 1982 recession. That's after a two-year effort to digest 92 Big K stores (no relation to K mart), acquired in 1981 and once losing money or barely profitable.

At Dayton-Hudson (second in growth and profitability on the Forbes Yardsticks), where sales are running better than 20% ahead of 1982, President and CEO Kenneth Macke says: "In 1983 our department store business has been rolling real well. The consumer is buying fashion apparel and many other lines like electronic goods. Coupled with strong sales growth in our discount, specialty and soft-goods promotional chains—Target [the discount chain], Lechmere [electronics] and Mervyn's [soft goods]—the outlook to us is optimistic." That goes for 1984, too. "Consumer confidence and incomes have been restored to much higher levels," Macke says, "so it looks like two back-to-back good retailing years."

HICKEN McNUGG
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McProfits

If beef prices rise, try chicken.

Even F.W. Woolworth, which bit the bullet and ended its Woolco discount operation in 1982, was pushing up profit margins and looking like a survivor. And Montgomery Ward, the longtime moneyloser—which, because it is part of the Mobil empire, isn't listed in the Yardsticks despite its $5.5 billion in retail sales—appears to have at last steered to break-even under CEO Stephen Pistner, brought over from Dayton-Hudson several years ago.

But better times don't necessarily mean less competition. Macke of Dayton-Hudson says that the country is probably still overstored: "You look at all the different kinds of retailing operations that have come along in recent years, over the past 25 years really. Retail square-footage has grown faster than the number of customers, and that has created a very competitive environment."

Adds Francis Rooney Jr. of Melville Corp. (shoes, clothes, drugs, toys): "Everyone seems to be looking to get into retailing markets or the segments that others are already in, like into off-price branded apparel and specialty retailing. But that is continuous. In the end the better retailers will win out, and some others are going to get hurt."

So who is going to get hurt? Will it be the department stores with their high costs? The discounters at the cheap-stuff end of the scale? The giant chains that seem to depend on ever-

The flap over fair trade

Department stores are losing some business to specialty chains, discounters and off-price outlets. The rawest rub is in brand-name clothing, those Calvin Klein or even-tighter Jordache jeans. These high-priced items have produced pay-the-rent profits for the big stores. They haven't liked losing sales and cachet to their mark-it-down competitors.

So it's no surprise that the department stores struck back on legal and political fronts. Retailers such as Federated, the nation's largest department store chain (Bloomingdale's, Filene's, Bullock's, Abraham & Straus), Allied Stores (Jordan Marsh, Brooks Brothers, Bonwit Teller) and others are privately and publicly threatening suppliers: Sell the same ritzy labels to discounters and the off-price gang and you shall darken our doorways no more.

The lower-priced chains such as Toys "R" Us, Burlington Coat Factory Warehouse and K mart see this as an attempt to freeze them out of those fancy labels and allow the department stores to keep the prices and markups high. Lawsuits ensued. Toys' feisty chairman, Charles Lazarus, in 1983 sued Federated Department Stores (which just happens to be competing directly against Lazarus' new Kids "R" Us children's clothes chain) on antitrust grounds and also sued two apparel suppliers, Izod (anything with an alligator on it) and Absorba (children's clothes). There were cross suits and, recently, the suits were dropped. Burlington Coat also sued Federated. In 1982 Jordache sued K mart for selling "inauthentic"—read low-priced—apparel. That suit, too, was settled.

In 1983 K mart struck back politically, encouraging more than 1 million customers to sign its petition demanding that price maintenance should be considered against existing law and the will of Congress. This aimed at countering the feeling that the department stores and manufacturers had the ear of William Baxter, former head of the Justice Department's antitrust division. Baxter was on record as saying that not all retail price maintenance arrangements should be considered illegal and he asked the Supreme Court to relax current resale price maintenance law in a specific case, *Monsanto* v. *Spray-Rite*, which involves herbicides. He argued the Court should do the same in other cases.

An infuriated Congress then sent legislation to President Reagan specifically prohibiting the Justice Department from using funds to overturn or change laws banning resale price maintenance.

But the battle between the department stores and the discounters will not be decisively won or lost in the courts. One retailer with a foot in both camps, Kenneth Macke, president of Dayton-Hudson—with department stores and discount stores and low-prices-on-ritzy-labels stores—puts it this way: "In the end it's the consumer who is going to decide where and whose merchandise he or she wants to buy, not suppliers or retailers. Consumers don't know or care about profit margins. They are going to opt for lower prices and better value. The store with good value and selection is going to survive."—**H.R.**

increasing sales? It's not the label but the style, says Rooney. He points to Edward Finklestein, CEO of Macy's, leader in profit growth among the department stores. "Finklestein's got excitement into his department stores that other department store merchants don't seem to be able to duplicate. It's more important to look at who are the best merchants in their category versus the mediocre merchants. No one group is likely to knock the other group out. There will be a place for all kinds of superior retailers, but not for inferior ones."

That means the recovery has bought time for a number of subpar retailers, but unless they find the proper blend of marketing skills, they will have their backs to the wall the next time business falters. Francis Rooney quotes a letter written in 1773 to Sam Franklin, a retailer in Philadelphia. Business wasn't too

Specialty retailers

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Drug chains												
American Stores	1	23.6%	25.6%	0.7	6	15.5%	14.2%	1.3%	1	52.8%	3	23.2%
Rite Aid	2	22.6	22.6	0.1	1	20.2	20.1	4.2	5	17.9	4	21.6
Revco D S	3	20.8	21.3	0.1	3	17.7	18.2	3.8	4	18.9	5	19.0
Walgreen	3	20.8	23.2	0.2	5	15.7	18.8	3.0	10	9.8	1	24.1
Pay Less Drug NW	5	20.7	18.8	0.8	7	13.1	11.4	2.6	2	22.6	7	17.3
Longs Drug Stores	6	18.9	17.5	0.0	2	18.8	16.9	2.9	7	15.3	9	11.2
Jack Eckerd	7	17.1	13.5	0.0	4	16.6	13.1	3.1	3	18.9	8	11.7
Peoples Drug Stores	8	16.4	17.8	0.5	8	13.1	13.0	1.7	8	14.1	2	23.5
Thrifty Corp	9	16.1	18.4	0.9	9	11.6	12.1	1.9	9	11.0	6	18.5
Pay'n Save	10	13.4	13.3	1.2	10	10.0	9.2	2.0	6	16.2	10	4.8
Medians		19.8	18.6	0.4		15.6	13.7	2.8		17.1		18.8
Fast food chains												
Wendy's International	1	24.8%	19.5%	0.4	1	20.0%	14.7%	7.8%	1	42.0%	2	24.3%
McDonald's	2	22.8	21.7	0.6	2	13.3	13.3	11.4	5	15.9	4	18.4
Marriott	3	21.0	20.3	1.3	5	10.8	9.3	3.8	3	18.6	1	26.6
Jerrico	4	17.8	14.0	0.5	3	13.0	10.8	4.6	2	22.0	3	18.7
Denny's	5	17.5	17.1	1.0	6	10.3	10.7	3.8	4	18.3	6	9.9
Saga	6	15.6	22.3	0.4	4	11.2	17.3	2.4	6	14.2	5	10.9
Medians		19.4	19.9	0.6		12.1	12.1	4.2		18.5		18.6
Other specialists												
Tandy	1	45.2%	29.3%	0.1	1	28.8%	25.9%	11.2%	9	19.2%	1	34.3%
Limited	2	33.2	40.0	0.5	3	23.8	25.5	5.1	1	31.8	3	28.9
Toys "R" Us	3	25.5	20.6	0.1	6	21.1	19.3	6.2	4	27.9‡	2	32.6‡
Melville	4	25.3	21.6	0.2	2	23.9	21.2	4.2	10	18.0	8	16.3
Avon Products	5	23.5	14.9	0.2	4	23.1	11.7	6.0	15	12.1	17	3.4
Petrie Stores	6	21.8	16.6	0.0	5	21.5	16.1	7.3	18	9.4	12	6.4
Cole National	7	20.8	16.5	0.8	10	14.3	11.3	2.5	2	29.6	6	18.2
Payless Cashways	8	20.4	21.8	0.4	7	15.3	17.1	4.1	5	27.8	4	20.1
Service Merchandise	8	20.4	18.4	0.9	11	13.3	11.8	2.6	3	28.9	9	14.7
Nordstrom	10	18.0	18.6	0.5	12	12.9	13.5	5.1	8	19.9	7	16.9
Brown Group	11	17.5	17.5	0.2	9	14.4	15.1	4.4	17	9.4	5	19.1
Edison Bros Stores	12	17.1	15.0	0.2	8	14.4	12.8	4.0	16	9.9	13	6.0
Best Products	13	14.2	12.8	1.0	15	9.3	6.6	1.6	6	24.7	14	5.7
Gordon Jewelry	14	14.2	9.2	0.4	13	12.1	8.1	4.2	11	16.5	10	12.0
General Host	15	13.9	13.1	0.9	19	8.3	7.6	2.1	23	–2.8		D–P
H J Wilson	16	12.1	5.3	1.2	17	8.9	5.2	1.3	7	22.6	16	3.6
Morse Shoe	17	11.5	15.0	0.6	14	10.0	11.5	3.2	14	12.4	19	3.0
Levitz Furniture	18	11.2	12.2	0.9	20	7.8	8.5	3.0	22	5.3	11	11.8
ARA Services	19	10.9	10.2	0.5	18	8.7	8.5	1.8	13	13.3	18	3.1
Zale	20	9.7	5.0	0.4	16	9.1	5.4	2.1	21	5.6	15	4.6
Pittston	21	4.7	def	0.4	23	4.6	def	def	19	7.8	21	–23.4
Beneficial Corp	22	4.1	9.1	4.0	21	5.1	5.9	3.8	20	5.8	20	–19.2
Genesco	23	3.9	def	1.6	22	4.7	3.7	0.2	24	–7.2		D–P
Wickes Cos	24	def	def	NE	24	def	def	def	12	15.8	22	P–D
Medians		15.7	15.0	0.5		12.5	11.4	3.5		14.6		9.1
Industry medians		17.7	17.3	0.5		13.1	12.0	3.2		16.4		15.5
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. P–D: profit to deficit. D–P: deficit to profit; not ranked. def: deficit. NE: negative equity.

good, and the competition was tough. Sam's brother, Ben, wrote him from England: "I would not have you discouraged at the little dullness of business, which is only occasional. A close attention to your shop and application to business will always secure more than an equal share because every competitor will not have those qualities. Some of them, therefore, must give way to you, and the constant growth of the country will increase the trade of all, that steadily stand ready for it."

Specialty retailers

Specialty chains echoed the success of the general retailers with profits swelling 20% to 25% over 1982, though laggards there were. Take the retail drug chains. Overall, the Forbes Yardsticks show, drug chain profitability remained above the industry medians. An upsurge in highly profitable prescription drug sales produced sizable profit gains in chains such as Revco D.S., Walgreen, Pay Less Drug Northwest, Longs Drug and Pay'n Save. But Florida-headquartered Jack Eckerd had little earnings gain despite a 12% sales jump.

At the fast food chains, the griddles were sizzling again after more than a year on the back burner. They lured customers with new treats. McDonald's, for example, the industry sales ($3 billion) leader, successfully cooked up Chicken McNuggets to mix with its hamburgers. Arch competitor Burger King, owned by Pillsbury, turned up the heat with its name-thy-enemy (McDonald's) advertising, salad bars and cut-rate coupons to lure customers. Wendy's showing was respectable enough, but 1983 profit gains didn't match its five-year average, which has earned it the number one post in the Yardsticks.

Other specialty retailers like Tandy in electronics and computers, Toys "R" Us, Melville in shoes, apparel and drugs, Payless Cashways in home remodeling, and The Limited and Nordstrom in women's clothes continued to prosper in 1983. And Levitz Furniture, with a housing recovery at its back, has turned itself around.

But some haven't adjusted to changing times. Avon Products, in the postliberation era, has had trouble recruiting competent door-to-door saleswomen, and then they have trouble finding women at home to sell to. Avon's profit ratios on the Yardsticks are running at half its five-year average. Some of the catalog showroom firms, such as H.J. Wilson, and the jewelry chains haven't fully recovered from the recession. But if the pickup intensifies in 1984, even they may be swept along with it. ■

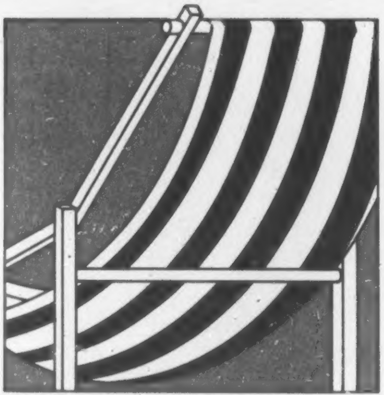
General retailers

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Department stores												
R H Macy	1	20.0%	22.3%	0.2	2	14.3%	17.1%	5.4%	5	12.8%	1	21.9%
Dayton-Hudson	2	17.9	16.5	0.5	1	14.7	12.6	3.4	2	19.1	5	9.3
Mercantile Stores	3	15.8	16.4	0.3	3	12.4	13.4	5.0	7	12.1	3	13.5
Dillard Dept Stores	4	15.1	20.8	0.8	8	9.3	12.8	3.7	1	19.6	2	16.8
May Dept Stores	5	14.5	16.3	0.5	5	10.0	10.7	4.2	10	9.8	7	7.8
Federated Dept Stores	6	14.2	14.6	0.3	4	11.6	11.4	3.7	8	10.2	6	8.1
Allied Stores	7	12.5	13.8	0.9	10	9.0	9.0	3.4	11	8.9	9	6.4
J C Penney	8	11.9	12.6	0.4	7	9.5	9.8	3.5	13	5.9	10	5.9
Strawbridge & Clothier	9	10.9	12.9	0.8	11	8.1	9.0	3.6	9	10.1	4	9.8
Carson Pirie Scott	10	10.7	11.7	0.9	12	8.1	8.3	2.2	4	13.4	11	4.2
Associated Dry Goods	11	10.6	12.9	0.6	6	9.7	10.5	2.8	6	12.6	8	7.5
Sears, Roebuck	12	9.9	13.3	0.6	9	9.2	10.9	3.5	12	6.9	12	1.8
Carter Hawley Hale	13	9.3	8.0	0.9	13	6.4	5.9	1.6	3	14.3	13	−2.2
Alexander's	14	1.4	7.9	1.1	14	2.7	5.3	0.9	14	5.7	14	−28.3
Medians		**12.2**	**13.6**	**0.6**		**9.4**	**10.6**	**3.5**		**11.2**		**7.7**
Discount & variety stores												
Wal-Mart Stores	1	33.1%	33.0%	0.7	1	21.5%	21.1%	4.0%	1	37.3%	1	35.6%
SCOA Industries	2	27.5	20.7	0.9	2	17.2	13.3	3.0	6	11.7	2	23.3
Heck's	3	14.6	6.3	0.7	4	9.7	6.2	1.6	2	16.8	5	10.0
Rose's Stores	4	14.0	21.3	0.1	3	12.4	18.9	2.5	8	7.0	4	21.9
Zayre	5	13.6	17.2	0.8	5	9.4	11.6	2.1	7	9.8	3	23.2
K mart	6	12.9	15.2	0.9	6	9.3	10.3	2.3	4	13.0	7	3.9
Household Intl	7	11.8	13.5	2.1	7	6.8	7.3	2.5	3	14.1	8	0.9
G C Murphy	8	7.9	11.1	0.5	8	6.3	8.2	1.8	10	5.7	6	4.9
F W Woolworth	9	4.4	14.1	0.5	9	4.2	10.4	2.6	11	4.3	9	−16.4
Cook United	10	def	def	2.1	10	3.0	0.7	def	9	6.4	10	D–D
HRT Industries	11	def	def	7.5	11	def	def	def	5	11.8	10	D–D
Medians		**12.9**	**14.1**	**0.8**		**9.3**	**10.3**	**2.3**		**11.7**		**4.9**
Industry medians		**12.5**	**13.8**	**0.7**		**9.3**	**10.4**	**2.8**		**11.7**		**7.5**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
D–D: deficit to deficit. def: deficit

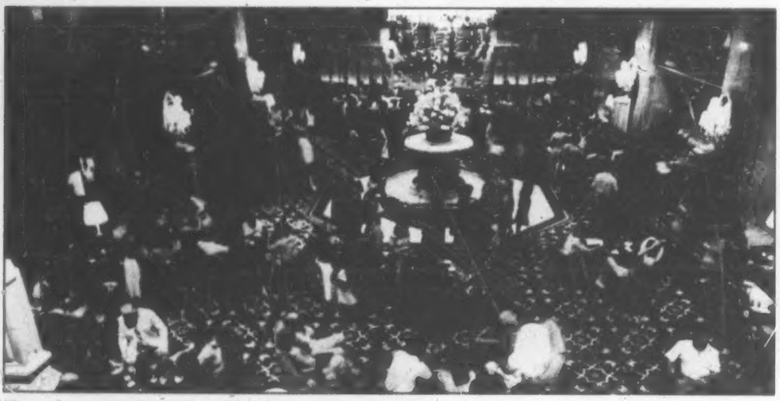
Forget the disaster in videogames. Place your bets on the upturn in casinos. And, at long last, watch for one in the hotel business and the photographic business.



Leisure

By Barbara Ettorre

DISASTER STRUCK THE leisure industry in 1983. Cartridge-game manufacturers overestimated retail sales by some $1.3 billion and everybody choked on inventories. The take at the nation's coin-operated game arcades collapsed to $3 billion from $7 billion the year before. That was a body blow to Mattel and Warner Communications' Atari, to Bally in the coin-operated sector and to Milton Bradley. It was also bad news for Coleco. Its relatively late entry into the field helped keep inventories low, but even this might not protect it since sales have tapered off.



Travelers in a busy hotel lobby
Will they be here all year?

But don't read too much into the decline. It afflicted only one segment of the leisure industry. Elsewhere in this industry things remained pretty good. General Cinema reported a return on equity of 54.3%. Although most of this reflects a one-time capital gain from the sale of its Miami TV station to Taft Broadcasting in April, General Cinema's soft drink bottling and film exhibition businesses stayed as profitable as ever. In a quite different field, once-moribund Fleetwood Enterprises more than doubled its 12-month return on equity to an impressive 31.9%. This came on the strength of sharply improving sales of recreational vehicles and superbly designed, low-cost manufactured housing.

Meanwhile, there was continuing strength in Atlantic City casinos despite the recession, a surprising resurgence in Nevada gaming (casino winnings were up almost 10% in Las Vegas, to $1.9 billion) and strong convention business in Las Vegas. There is also the prospect of a turnaround in the lodging business after more than three years in the doldrums, as salesmen hit the road in a recovering economy.

The hotel business did feel the recession, but hoteliers saw occupancy rates recover almost 2% last year over 1982, spurred by a travel boomlet that began in the third quarter. Of course, that is from a sorely depressed base. The hotel business was hurting badly for most of 1982 and early 1983, when only 64% of the available 2.2 million to 2.5 million rooms were occupied. That hovered at the industry breakeven range of 60% to 64%. (Marriott and Holiday Inns were able to take this in stride because of widespread pruning of older units at Holiday and continuing heavy expansion and cost efficiencies at Marriott.)

Current travel industry forecasts call for 69% occupancy rates this year, which is close to peak 1979 conditions. Splashy events like the summer Olympics in Los Angeles and the presidential elections this year will help keep rooms filled.

William H. Edwards, president of the hotel division of Hilton Hotels Corp., notes October 1983 was the best earnings month in the history of the company. He adds: Hilton has seen a surge in advanced bookings for conventions in 1984, and a "good pace" in 1985 and 1986 bookings.

But many negatives remain: Revenues from foreign visitors, down about 12% in 1982, are expected to stay down for 1983 because of the strong dollar. Nor can the hotel industry expect quite as much help from airline travel packages with the airline industry in the shape it's in.

Add to that a 2% increase in available rooms, and it amounts to saturation, particularly in high-priced lodging. Marriott Chairman Bill Marriott Jr. blames foreign competition, such as Trust House Forte, Air France's Meridien Hotels and Aer Lingus' Dunfey Hotels, all of which are opening high-end hotels (room rates of $100 to $200 a day) in the U.S. "These hotels have high construction and operating costs and no appeal to the ordinary pleasure and convention market," he says. "It takes some cream off regular hotels." Like Marriott's moderately upscale hotels, that is.

Of course, Marriott's main, slightly downscale, domestic competitors are doing the same thing. In the name of luxury segmentation (using a different brand name and image) ailing Ramada Inns has constructed ten pricier Renaissance Hotels, and Holiday has built four Crowne Plaza hotels.

Marriott, for his part, hasn't been idle either. He's continuing to expand the chain's traditional hotel space by about 20% this year and next, but he is also experimenting with lower-priced, nonconvention lodging with several Courtyard hotels that offer rooms for $45 to $55 a night, vs. $70 to $100 for Marriott rooms. This year, Holiday Inns will also launch a budget strategy, with a no-frills, scaled-down chain offering rooms at $35 and less.

Casino properties continue to be a gold mine. But because of extraordinary factors, you wouldn't know it from looking at the latest 12 months of Caesars World (which took a $10 million loss in one quarter on a cash-flow savings bond swap) and MGM Grand (which is still paying part of the $75 million settlement from the 1980 fire at its flagship hotel and trying to clean up its balance sheet), or Resorts International (whose latest 12-month profitability was badly damaged by losses on metals futures trading—a side venture Resorts now wants no more of).

These setbacks were alleviated by the fact that gaming income was up 18% over 1982 in Atlantic City, to $1.8 billion. But the surprise was the strong performance in Nevada. "It looks like America can sustain two major gaming capitals," says Laventhol & Horwath partner and leisure expert Saul F. Leonard.

Casino operators may be smiling, but look at the erstwhile favorites with long faces: Walt Disney Productions (whose theme-park earnings are burdened with huge film and television losses), Eastman Kodak (hit with a dropoff in overseas sales) and Polaroid (suffering from the same depressed photographic market plus lower film sales). But those faded favorites have fairly bright recovery prospects this year. Only in the once hot videogames segment did things continue to look dismal as the new year dawned. A fad is a fad is a fad. ■

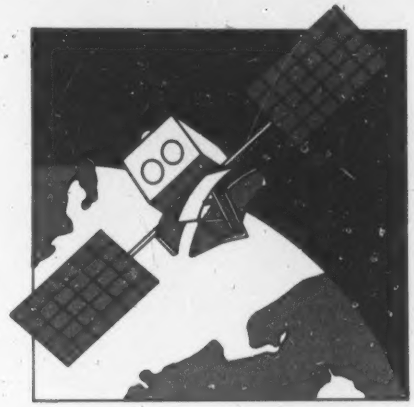
Leisure

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Hotels and gambling												
Hilton Hotels	1	23.4%	18.6%	0.3	2	17.5%	13.2%	17.0%	6	8.7%	4	21.7%
Resorts Intl	2	22.7	10.1	0.6	1	18.0	8.3	5.9	1	32.8	3	24.9
Marriott	3	21.0	20.3	1.3	3	10.8	9.3	3.8	3	18.6	2	26.6
MGM Grand Hotels	4	20.7	NE	1.1	5	9.9†	5.7	5.5	5	11.2	6	5.9
Caesars World	5	15.9	def	1.4	6	8.6	3.1	def	2	29.8	1	50.3
Holiday Inns	6	12.5	12.6	0.5	4	10.2	10.0	7.9	7	7.6	5	12.5
Del E Webb	7	3.7	0.7	0.8	7	5.3	3.9	0.2	8	2.0	7	–13.5
Ramada Inns	8	def	def	3.3	8	3.3	4.3	def	4	12.3	8	P–D
Medians		18.3	5.4	1.0		10.1	7.0	4.7		11.8		17.1
Entertainment												
General Cinema	1	29.2%	54.3%	1.6	1	15.8%	22.0%	10.1%	3	14.2%	1	24.6%
Warner Communications	2	18.1	def	0.3	3	14.0	def	def	2	25.3	2	9.4
MCA	3	16.3	15.7	0.0	2	15.0	14.7	9.9	5	10.8	4	7.6
MGM/UA Entertainment	4	14.1†	13.1	1.8	4	10.5†	7.2	5.5	1	28.9	5	4.0
Walt Disney	5	10.8	7.2	0.2	5	9.7	5.8	7.1	4	11.7	3	8.6
Medians		16.3	13.1	0.3		14.0	7.2	7.1		14.2		8.6
Recreation												
Coleco Industries	1	59.7%	44.2%	0.8	1	35.2%	27.0%	6.9%	2	25.3%		D–P
Tandy	2	45.2	29.3	0.1	2	28.8	25.9	11.2	4	19.2	1	34.3%
Brunswick	3	20.4	10.3	0.4	7	11.8	10.7	4.1	11	4.5	3	19.9
Bally Manufacturing	4	20.4	5.4	0.6	4	16.1	6.2	2.4	1	32.2	2	26.2
Eastman Kodak	5	18.3	11.7	0.0	3	17.2	10.6	7.8	7	12.4	5	9.4
American Greetings	6	15.8	15.7	0.3	6	12.0	12.4	6.3	5	15.9	4	15.2
Milton Bradley	7	13.8	2.0	0.1	5	12.2	2.6	1.1	6	13.7	6	9.3
Fleetwood Enterprises	8	11.4	31.9	0.0	8	11.2	31.0	4.2	8	8.1	7	6.1
Outboard Marine	9	7.9	11.8	0.3	10	6.9	9.8	5.0	10	5.6	8	0.2
Skyline	10	7.2	6.9	0.0	9	7.1	6.8	2.5	12	2.4	9	–2.6
AMF	11	6.5	def	0.4	11	5.4	def	def	13	1.9	10	–6.8
Polaroid	12	4.5	3.7	0.1	12	4.8	4.1	2.7	9	6.5	11	–11.0
Mattel	13	def	def	0.4	13	3.2	def	def	3	21.9	12	P–D
Medians		13.8	10.3	0.3		11.8	9.8	4.1		12.4		7.7
Industry medians		15.9	10.2	0.4		11.0	7.8	4.6		12.4		9.3
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
†Four-year average. P–D: profit to deficit. D-P: deficit to profit; not ranked. def: deficit. NE: negative equity.

Now that AT&T is broken up, the question is access charges. For the consumer, nevertheless, costs will go up and service down.



Telecommunications

By Pamela Sherrid

IT FINALLY HAPPENS: On New Year's Day AT&T divests itself of the local Bell operating companies. The breakup of AT&T, that once-in-a-lifetime event, is a reality.

So far the sky shows no sign of falling, but the excitement level could really pick up if the struggle over long-distance rates goes awry.

The most dramatic change on the Forbes Yardsticks *(p. 238)* took place at Rolm, a manufacturer of office switching systems like private branch exchanges (PBXs) and general-purpose military computers. But AT&T's D (for divestiture) Day had nothing to do with Rolm's precipitous drop in profits in 1983. Rolm's aging product line encountered fierce competitive pricing pressures in the PBX market from companies like Northern Telecom. The situation was exacerbated in the recent quarter by the AT&T strike, which slowed down Rolm installations, and by a new product's initial shipment delay caused by bugs in the software.

Nevertheless, Rolm's prospects have never looked better, thanks to two related events. In June, to the industry's surprise, IBM paid $228 million for a 15% stake in the lagging PBX maker. IBM's motivation became clear later in the year when Rolm announced a new-generation PBX capable of switching extremely large amounts of information between telephones and computers. The new product, the result of heavy research and development spending by Rolm, is expected to play a key role in IBM's office automation strategy.

Though all the independent telephone companies on the main list—Centel, United Telecommunications, Continental Telecom, GTE and Southern New England Telephone—have diversified into unregulated businesses, as the seven Bell operating companies hope to do, for now the greater part of their revenues still comes from telephone operations.

In those utility operations, the recession slowed down the pace of local line installments and of long-distance toll unit growth as well. Because the telephone industry tends to lag the economy as a whole by six to nine months, these companies for the most part didn't begin to benefit from the recovery until the second half of 1983. "In the third quarter, our toll unit volume was up 9.5%, the strongest move since 1981," reports Robert Reuss, chairman of Centel. In 1984 the industry should experience the full bloom of the recovery, with unit toll volume rising 10% to 15%.

For now, the independent telephone companies receive their portion of the long-distance pie through a negotiated settlements process with AT&T that generally gives them over 50% of their total revenues. The industry earned less than its federally authorized 12.75% rate of return on its long-distance business in 1983, in part because traffic volume turned out to be less than was anticipated.

But D Day also played a role in that subpar return. Normally the industry would have gone back to the FCC to ask for higher rates. But, as Paul Henson, chairman of United Telecommunications, explains: "We knew that

Bell before the bell

Institutional investors are hesitant to buy stock in the new Bell entities until it is actually issued later this year. Most of the brisk when-issued trading comes from individuals seeking to lock in the high yields shown below and, presumably, a capital gain as well once the institutions start buying.

					Historical			
					% increase 1981-83*			
Company	Recent price	1984 estimated EPS	P/E	Estimated yield on common	revenues	earnings	Return on equity	Profit margin
AT&T (postdivestiture)	20½	$ 2.02	10.1	5.9%	NA	NA	NA	NA
Ameritech	62¾	9.47	6.6	9.6	10.3%	22.2%	12.7%	11.7%
Bell Atlantic	66⅜	9.69	6.8	9.6	16.4	25.6	12.7	12.1
BellSouth	88½	12.21	7.2	8.8	14.2	19.7	13.5	13.3
NYNEX	60⅝	9.54	6.4	9.9	15.8	14.4	12.8	10.3
Pacific Telesis	54⅝	8.00	6.8	9.9	15.8	122.7	14.5	12.4
Southwestern Bell	59⅝	8.93	6.7	9.4	15.9	13.7	12.0	11.3
US WEST	57⅛	8.96	6.4	9.5	11.9	11.4	12.4	12.0

*December 1981 to June 1983. NA: not available.

Sources: *Divestiture prospectus;* FORBES.

right after divestiture, AT&T's long-distance rates were supposed to come down as more of the burden for local service was shifted to the local user. It didn't make sense to raise long-distance rates and then lower them soon after. So we've been accepting a lower than allowable rate of return."

Nearly ten years ago some of the larger independent telephone companies started to diversify in anticipation of the day when their long-distance revenues might shrink. But with little success to date.

One notable exception is Continental, where, in the first nine months, earnings from nonutility operations tripled. That was thanks to Continental's business systems group, which includes Executone, a national distributor of communications equipment for small businesses.

The new, lean and mean AT&T also now finds itself in both regulated markets (long-distance telephone service, which will account for over 50% of 1984 revenues) and deregulated ones (for example, telephone equipment and software systems sales). In both worlds it is facing major uncertainties. On the hardware side, its manufacturing arm, Western Electric, finally has a digital central-office switch to offer to the new Bell operating companies and the other independents. But Western has lost ground in the central-switch market to Northern Telecom, which was the first to produce a local digital switch. Northern already has a sizable share of the independent market and is likely to sign many contracts with the new Bell companies.

The end-user or "customer premises" market is even more wide open. Here AT&T does not yet have a full product line. Its flagship product is the System 85 PBX, which got off to a less than glorious start when first introduced last January. Sales stepped up when enhanced versions were introduced later in 1983.

Significantly, AT&T also announced cooperative arrangements with Wang and Hewlett-Packard designed to integrate the System 85 with their computer products. This is the first time that AT&T has opened its specifications to other vendors, and it's a clear signal that Ma Bell intends to lock horns with IBM in its decision to back Rolm. Though the two giants are moving from different strengths, both realize that compatibility between PBXs and computers is necessary to make the office of the future happen.

There's a wild card in the "customer-premises equipment" market. It's the new regional Bell companies to which Judge Greene returned the right to sell, but not manufacture, telephone equipment. The Bell babies are not all that wild about marketing the same equipment as AT&T. The result is a bonanza for other manufacturers, including offshore ones, which have already lined up Bell baby contracts. "No doubt it's an opportunity for lots of competitors to exploit a new channel of distribution," admits William Buehler, a vice president at AT&T Information Systems.

The greatest short-term uncertainty in this industry is the long-distance business, which was turned into a political football late in the predivestiture process. Now there is a strong possibility that Congress will soon overrule the FCC's ideas about who should pay for long-distance calls.

Gallons of ink have already been spilled explaining this "access charge" controversy. Actually, it isn't all that complicated. The FCC's decision, announced last August, was very favorable for AT&T. The amount that AT&T would have to pay local telephone companies for originating and completing long-distance calls would drop by about 25%. Part of that cost would be taken up by consumers through flat monthly access fees. The remainder—at least for a few years—would be borne by competing long-distance carriers, such as MCI and GTE's Sprint, whose payments to local phone companies would nearly double.

The FCC wants to end the subsidy of local service by long-distance service, so the industry will base pricing on actual costs. That way the big long-distance users would stop deserting existing common carriers in increasing numbers in favor of cheaper, private networks. The Bell regional companies and the independents quite agree. "Local service has got to stand on its own bottom," says United Telecommunications' Henson. "If we don't go to access charges, the little old ladies will be left to pay the bills all by themselves, and the cost

Telecommunications

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
ROLM	1	41.4%	10.9%	0.1	1	38.3%	10.5%	5.9%	1	65.9%	1	57.9%
MCI Communications	2	30.6	28.1	1.1	2	18.2	13.6	14.6	2	65.2		D–P
Centel	3	17.9	16.8	0.8	4	7.9	7.7	9.0	4	17.4	2	8.1
United Telecom	4	16.9	14.7	0.9	3	8.1	7.4	8.7	5	14.2	5	6.0
Continental Telecom	5	14.6	14.3	1.0	5	7.5	7.2	8.1	3	17.5	4	6.6
GTE	6	14.3	15.6	0.9	6	7.5	7.8	7.4	8	9.8	6	5.1
So New England Tel	7	12.8	14.4	0.5	8	7.3	7.9	10.1	6	12.3	3	7.6
American Tel & Tel*	8	12.3	10.2	0.5	7	7.4	6.5	9.7	7	11.7	6	5.1
Western Union	9	6.1	9.1	0.7	9	6.0	7.2	8.3	9	8.0	8	3.7
Industry medians		14.6	14.4	0.8		7.5	7.7	8.7		14.2		6.3
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
*Data are on predivestiture basis.
D–P: deficit to profit; not ranked.

will be much higher than anyone is talking about now."

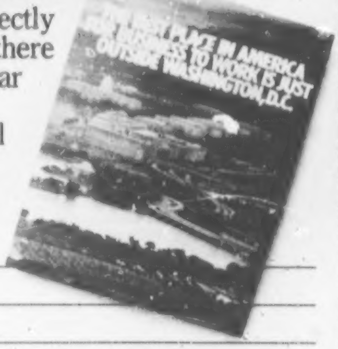
MCI and the other non-AT&T long-distance carriers obviously agree that the cost of access to long-distance carriers should be shifted from them to the local consumer. But naturally they are fighting like mad to avoid having to pay more during the intervening years—from 1984 to 1987—as they would have to under the FCC plan. "That's anticompetitive and blatantly unfair," says MCI President Orville Wright.

At the moment MCI has a 45% discount from AT&T because it gets an inferior-quality interconnection with the local operating companies. In the next few years the local companies will be upgrading their connections with non-AT&T carriers, so MCI will gradually be paying what AT&T does. That is fine with MCI—especially if AT&T's costs go down as the local consumer takes on more of the costs through rising access fees.

If the access fees go through as the FCC has structured them, though, MCI will have a tough few years. In 1984, increased payments to local operating companies would cut its operating margins in half. And the company would get hit by a double whammy: AT&T has already announced its intention of using its cost savings to reduce its long-distance rates by an average of 10.5%. That would force MCI to make a price cut about half as big to prevent the differential between it and AT&T from eroding too much. Wright says that price cut would take another two percentage points off MCI's margins, leaving it with so little profit that it would put a severe crimp in the company's capital spending plans. "That's just the way AT&T planned it," he says grimly.

Meanwhile, the battle in Congress appears to focus on consumer outrage over new access charges. However this battle is resolved, higher local rates seem inevitable. Even if Congress votes against access fees for now, the local operating companies are going to need lots of rate increases just to modernize their obsolete plants. True believers in the benefits of deregulation expect increases in local prices to be more than offset by long-distance savings, though, of course, that is yet to be seen.

In the meantime, prepare for deteriorating service. It's quite alarming, in fact, just how many top executives in the industry are predicting it. "So you're having trouble getting a dial tone?" asks one. "Get used to it; it's going to get worse." ■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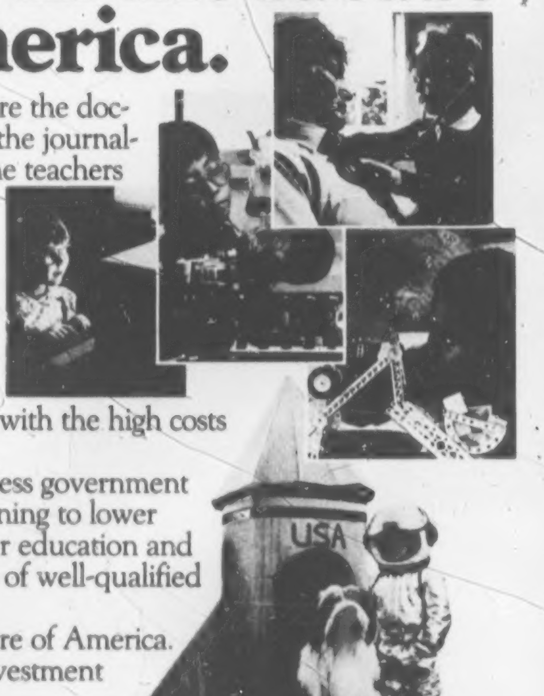

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Don't count out the networks. With the Olympics and the presidential elections coming up, this may be their year.

Broadcasting

By Thomas Jaffe

HAVE THE NETWORKS hit bottom? In just four years, 1978 to 1982, the three television networks' share of the prime-time audience fell from 93% to 79%. But in 1983 the decline bottomed out. And in 1984? Well, there are the Olympics and the national elections coming up. Between them, they ought to insure the networks a satisfying renaissance.

Look at the tables below, and you can see that the networks could use a boost. The profits of CBS Inc., ABC and RCA Corp. (the parent of NBC) were up in 1983, but returns still lagged their five-year averages. Their broadcasting revenues increased a respectable 12%, but operating margins kept shrinking—from 20% in 1978 to about 13% in 1983. At that rate, network TV could become just another business instead of a license to print money.

The Olympics cannot singlehandedly turn this tide, but they will go a long way. The Games will account for more than $625 million in advertising sales, according to ABC, which will broadcast them. ABC figures one-third to 40% of this is money that would have been spent with the networks anyway. The other $400 million, it claims, is new money. Others think it's less than half that, but, even so, ABC stands to clean up. And, curiously, so do its two rivals. The Olympics doesn't create more minutes of commercial time; it simply replaces existing inventory. CBS and NBC are counting on the demand (and thus the price) to increase for what remains. The impact on profits of the 1984 conventions and elections is harder to quantify because network news departments also spend a lot of money covering them. But politicians competing for time with regular advertisers are likely to drive up rates.

Add to this new blockbuster miniseries like ABC's *The Last Days of Pompeii* and CBS' *George Washington,* and the betting on Madison Avenue is that the networks will tally 12% to 13% increases in commercial rates in 1984. And network revenues will probably be up an estimated 16% to 18%, to somewhere around $7.6 billion. "They have their ducks lined up in a row," says Stephen Leff, director of media services at New York ad agency Backer & Spielvogel. "The networks have a perfect opportunity to reattract a lot of viewers who have been waylaid by other options."

Moreover, most of the rest of the industry will be pulling for them. Why? Because when the networks do

Broadcasting

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Metromedia	1	80.6%	55.1%	1.6	1	31.5%	18.2%	16.7%	8	10.6%	1	48.5%
Capital Cities Commun	2	22.1	19.5	0.1	2	18.6	18.2	14.8	3	19.0	2	21.1
Cox Communications	3	19.7	16.4	0.4	3	15.1	11.3	12.[illegible]	2	22.5	3	19.8
Amer Broadcasting	4	18.1	13.7	0.2	4	15.0	11.8	5.4	6	12.4	4	13.4
Rollins	5	17.1	1.8	0.0	5	14.7	1.9	1.0	5	12.8	6	7.5
Wometco Enterprises	6	15.7	14.3	0.8	7	10.6	8.9	5.6	4	16.0	5	10.9
CBS	7	14.7	11.1	0.2	6	12.5	9.3	3.4	7	10.9	7	1.0
RCA	8	10.1	8.4	0.8	8	9.0	7.8	2.5	9	8.2	8	–2.2
Oak Industries	9	3.6	def	0.9	9	8.5	def	def	1	24.4	9	P–D
Industry medians		17.1	13.7	0.4		14.7	9.8	5.4		12.8		10.9
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.

well, so does practically everyone else. Take big group broadcasters like Capital Cities Communications and Cox Communications, for example. Their stations thrive in the nearly $8 billion national spot and local advertising markets. National spot is the ration of commercial time within network-supplied programs that is sold to national advertisers by individual stations themselves. Revenues here could be up over 15% in 1984.

Does that mean that Metromedia is worth a billion and a half dollars? John Kluge thinks it is, and Kluge is not only the company's chairman and largest stockholder but also a principal in the corporation set up to buy it out for that hefty sum. But the fact is, the Metromedia buyout, at about 3 times 1983 revenues, is not the best measure of the potential of 1984. True, Metromedia is the leader in the tables *(see p. 240)*. True, the company's seven TV stations, which reach 24% of the national audience, are enormously profitable.

But that spectacular return on equity doesn't tell the full story. Metromedia is burdened by some $680 million of long-term debt. (Its debt-to-equity ratio is 4 times the industry's median.) That's the reason, of course, that its return on equity is 2½ times that of number two Capital Cities Communications but its return on total capital, the crucial measure, is the same.

Capital Cities, in fact, is a much better measure of the profitability 1984 could bring. Four of its six TV stations are ABC affiliates, so they should benefit smartly from the Olympics. Its inventory of time in periods adjacent to Games coverage should command premium prices from national spot and local advertisers. The same goes for Cox, another pacesetter in profits, and smaller Taft Broadcasting, both of which also have a clutch of ABC stations.

Independent TV stations used to be the stepchildren of broadcasting. Now some are among its most prosperous segments. In 1979 there were 122 "indies"; by the end of 1984 there should be nearly twice as many. In 1975 the independents' share of national spot and local advertising was 16%. In 1983 it was 24%, or nearly $2 billion. By 1990 it should be up to 28%. No wonder everyone wants a piece of that action.

And with such glittering prospects, it's no wonder, too, that the independents are terrified by the possibility that the FCC will allow the networks once again to own their own programming and sell the syndication rights themselves. After all, the indies' main stock in trade these days is the syndicated reruns of popular old network series. With ex-actor Ronald Reagan opposing the FCC proposal, it hardly seems likely it will go through anytime soon. But just the thought disturbs the independents, who fear the networks would "warehouse" programs after their prime-time runs and then offer them to affiliates before independents. "Hogwash," says Gene Jankowski, president of the $2.5 billion (sales) CBS Broadcast Group. "When you manufacture something, you don't do that to store it away. You want to move it, generate revenues."

The revenues Jankowski is talking about are enormous—some $800 million a year. And most of it is gravy.

Upcoming miniseries: from Rome to the Revolution
Will they help rebuild the networks' audience?

Rights to the current CBS hit detective series *Magnum, P.I.* alone recently fetched a reported $70 million from 11 independents. But of course all that money will go to the show's producer, MCA's Universal Television, not to CBS, where of course it could help restore those eroded margins.

There are other deregulation straws in the wind. Will the "rule of seven," which prohibits any company from owning more than seven TV stations, be relaxed or abolished? Many insiders consider either a real possibility. Again, the biggest beneficiary could be the networks. Their existing owned-and-operated stations are money machines, accounting for perhaps 40% of the networks' combined broadcasting profits and 24% of their national audience. At present they have only five apiece. More would benefit in two ways: First, in immediate operating profits; second, in delivering a more attractive audience to advertisers (since a network can tell an owned station what programming to carry, but can only suggest to an affiliate).

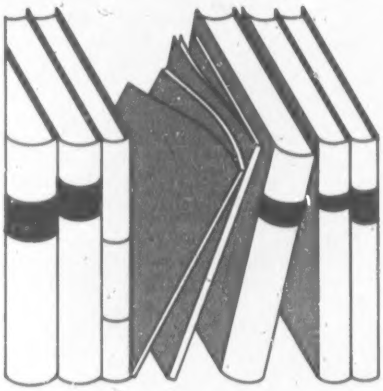
But network or non-network, broadcasting is clearly a more profitable business than about anything else you can find. Conglomerates that mix broadcasting and nonbroadcasting have again been demonstrating that. Take, for example, Rollins, whose profitability shrank to next to nothing in 1983 because oilfield services, 47% of income in 1982, collapsed. Rollins' broadcast chain and, to a lesser extent, its exterminating business, kept the company going.

In contrast to the bright prospects for broadcasting, cable and its pay-TV cousins hardly look like the fair-haired children anymore. Look at poor Oak Industries at the bottom of the list, badly hurt by the faltering subscription-TV business. Oak ended operations in two cities, taking a $23 million writeoff, and set up a $49 million reserve to cover further losses.

Pure cable ventures, meanwhile, were dropping like flies. CBS' cultural service, RCA's entertainment channel and the ABC/Westinghouse Satellite News Channel rolled up combined losses of $125 million in 1983. The first two died, and SNC was bought out by Turner Broadcasting's Cable News Network, which, despite all the hoopla, is still losing money. ABC's ARTS cultural service and Daytime, its joint venture with Hearst Corp., were still alive at year's end but had lost an estimated $60 million or more. Basic cable must eventually attract advertisers in large numbers, and, although its ad revenues were $250 million in 1983 and should increase 25% or so in 1984, that's still a mere crumb from the total $16.5 billion broadcast advertising pie. "Clients ask me, 'What are we going to lose if we don't buy time on cable?'" says Backer & Spielvogel's Leff. "'Nothing,' I tell them."

In short, the networks will be the engine of recovery in broadcasting this year—although "recovery" may be a misnomer in this business, where pretax margins for most stations didn't fall below 35% even in the depths of the recession. Except for the cable business, almost everybody will make a lot of money—if the networks do. "The plain fact is," says Capital Cities Chairman Thomas Murphy, "if the networks don't do well, we won't do as well as we want to, either." ■

A lot of newspapers folded last year, but don't be deceived. This industry is booming.



Publishing

By Pamela Sherrid

NEARLY A DOZEN MORE daily newspapers folded or merged in 1983. But Arthur Ochs (Punch) Sulzberger, The New York Times Co. chairman, says cheerfully, "It's a pretty good time for papers."

Sulzberger is right, despite the evidence of strain in the Yardsticks. The Times Co. and The Washington Post Co. both bettered their five-year averages in return on equity and The Post raised return on total capital in 1983. True, most other newspaper companies did not, but, considering the severity of the recession, they did remarkably well, putting the whole industry in a powerful position as the economy moves into a classical cyclical recovery. Advertising lineage, in the doldrums in 1982, started climbing again in 1983. Classified ads for employment, housing and real estate, always the most sensitive to swings in the economy, led the way sharply with a 23% increase in the first nine months—above expectations.

Even in the depths of the advertising decline, newspaper publishers got a respite from the seemingly inexorable rise in the price of newsprint. The paper mills were forced to make those cuts—the first since the Great Depression—because of the publishers' reduced need for paper. With the 1983 advertising recovery, paper prices started rising once again, but not by more than they declined in 1982. The result was wider margins, margins further fattened by continuing automation in an industry once plagued by intractable labor costs.

What about all those newspapers that folded in 1983? Good news for the survivors—and frequently for the proprietors of the defunct papers as well. Because of the demise of the *Philadelphia Bulletin*, Knight-Ridder's *Philadelphia Inquirer* and *Daily News* now share a monopoly in the city, while The Washington Post Co. is cleaning up in its hometown with the 1981 demise of the *Washington Star*. The independent *Buffalo News* is the only daily in that city since the 1982 closing of Cowles' *Courier Express*. In St. Louis, where Newhouse's *Globe-Democrat* was at death's door at year-end, the Justice Department was trying to arrange a rescue. But if it fails, Newhouse will wind up with an interest in the survivor *Post-Dispatch* in return for shutting the *Globe-Democrat*.

Gannett Chairman Allen Neuharth
Sticking to his original projections for USA Today.

All this sets the stage for a powerful upward momentum in earnings in 1984. Wall Street especially likes big-city newspapers like The New York Times Co., The Washington Post Co. and Times Mirror Co., which will most likely see earnings rise over 20% for the year. By contrast, earnings at Harte-Hanks (1982 revenues $394 million), which owns smaller newspapers, mostly in the South, will be up, but not nearly as much.

There's a big-city newcomer on the list this year. In October Chicago's Tribune Co. (the *Tribune* and the New York *Daily News*) went public after 136 years of private control. With 1982 revenues of $1.4 billion, the Tribune Co. ranks number three in revenues behind Times Mirror ($2.2 billion) and Gannett ($1.5 billion). (Two publishing empires just about as big as the Tribune Co.—Newhouse and Hearst—remain in private hands.)

The Tribune Co. has long been an earnings laggard. Its five-year return on equity falls significantly below the industry. But the current outlook is brighter. Not only will its big-city papers benefit from cyclical trends, but the Tribune recently completed a

$185 million expansion and modernization project in Chicago that gives it state-of-the-art offset printing. In New York the *Daily News* has been restored to profitability through labor negotiations and a plant relocation that together could reduce operating expenses by $50 million annually.

Right now newspaper publishing is, basically, an old-technology business, but that's changing fast. Says Allen Neuharth, Gannett chairman: "Most of us in the news and information business are working on how to use the new [computer and telecommunications] technologies to distribute and sell more news and information—in print or electronically."

Gannett is in the forefront with the use of satellite-transmission technology to launch *USA Today* as a national newspaper. In this it follows in the pioneering footsteps of Dow Jones' *Wall Street Journal*. This technology enables Gannett to print in many places, vary the ad content according to region and, by year-end, reach all major population centers within a few hours of printing. *USA Today* probably lost about $85 million pretax in 1983, but Gannett can afford it. Despite the losses, its earnings probably rose 6% last year. Meanwhile, Neuharth is staying with his original projection that *USA Today* will be in the black by 1987. Both Wall Street and Gannett's competitors remain skeptical.

Also looming on the newspaper horizon is videotex, the two-way transaction and information service that reaches the home via the TV screen. Time Inc abandoned its one-way teletext experiment late in 1983, but the industry's eyes are focused on South Florida, where Knight-Ridder started selling its videotex Viewtron system this fall. Viewtron offers a special computer terminal for $600 to hook up to subscribers' TV sets. The customer pays a $12 monthly fee and $1 an hour for phone usage. If the system is a success in south Florida, Knight-Ridder hopes to leverage its $26 million investment by introducing Viewtron into five other markets where it owns papers and into other cities by forging alliances with other publishers. Times Mirror will launch a system similar to Viewtron in Orange County in 1984, and if this is successful, plans to offer a videotex service with The Washington Post Co. in the Washington area. "Newspapers are the natural heirs to this business," says a Knight-Ridder executive.

Dow Jones, which tops the list of newspaper publishers in ROE, made a profit on its database publishing effort for the first time in 1983. "Database publishing is going to be a very substantial part of our business in the future," says Chairman Warren Phillips. By contrast The New York Times Co. got out of the marketing and computer operations of its own electronic information service in 1983, deciding instead to license the electronic reproduction of its database to Mead Corp. "It really wasn't our line of business," says Sulzberger.

Ask Dow Jones' Phillips, though, where he sees his major growth coming from in the future, and his answer is still the *Wall Street Journal*, which provides about 70% of corporate profits today. "There are no signs that we are reaching saturation in that market," Phillips says. "The number of people who are prospective readers—people with high income, high education—is growing faster than the general population." There are reports that the *Journal*, which went into two sections in 1980, plans to add even more pages in the fairly near future.

As the U.S. moves from the industrial age to the knowledge-communications age, the newspaper business is clearly a good place to be. ■

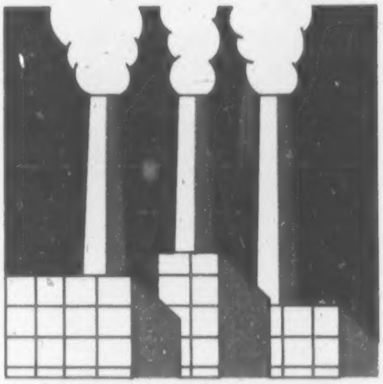
Publishing

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Dow Jones	1	32.1%	31.3%	0.1	2	28.8%	27.8%	12.7%	5	18.0%	6	17.9%
Dun & Bradstreet	2	31.3	32.0	0.0	1	31.1	32.1	10.4	7	16.2	4	18.3
Deluxe Check Printers	3	29.0	28.9	0.0	3	26.5	26.1	12.2	10	15.1	3	18.3
McGraw-Hill	4	22.3	22.5	0.0	4	20.2	20.8	9.7	15	12.3	7	17.4
Washington Post	5	22.3	23.9	0.0	7	18.1	20.9	7.3	12	13.6	10	14.5
Capital Cities Commun	6	22.1	19.5	0.1	6	18.6	18.2	14.8	3	19.0	1	21.1
Gannett	7	21.4	20.0	0.3	9	17.2	15.5	11.3	1	23.8	9	15.3
A C Nielsen	8	20.9	22.1	0.1	5	20.1	21.1	7.3	4	18.5	8	15.6
Equifax	9	20.1	22.2	0.1	10	16.8	18.6	3.5	18	9.5	16	6.6
New York Times	10	19.1	19.8	0.4	11	15.6	13.1	6.5	13	13.4	2	18.5
Interpublic Group	11	18.8	16.5	0.1	8	17.7	16.4	4.0	6	16.7	14	9.9
Times Mirror	12	18.6	17.3	0.5	13	14.6	12.0	7.2	9	15.2	13	12.6
Meredith	13	18.6	20.1	0.5	15	12.5	12.9	8.4	11	13.8	5	18.1
Knight-Ridder News	14	16.3	14.8	0.1	12	14.6	13.2	8.1	16	11.9	12	14.0
R R Donnelley & Sons	15	16.1	17.5	0.0	14	13.9	14.2	7.4	8	15.8	11	14.2
Harcourt Brace Jovan	16	13.6	15.2	0.6	17	9.6	9.8	4.0	14	12.5	17	6.4
Time Inc	17	12.5	10.6	0.3	16	10.1	8.5	4.0	2	23.0	15	6.7
Tribune	18	11.7	10.3	0.6		**	6.7	4.0	17	9.9‡‡	18	−4.5‡‡
Macmillan	19	4.4	15.2	0.3	18	4.5	13.0	5.4	19	−1.5	19	−18.0
Industry medians		**19.1**	**19.8**	**0.1**		**17.0**	**15.5**	**7.3**		**15.1**		**14.5**
All-industry medians		**15.1**	**12.6**	**0.4**		**10.8**	**8.6**	**3.5**		**12.4**		**9.4**

Note: Explanation of Yardsticks calculations on page 38.
‡‡Three-year growth. **Not available; not ranked.

Every diversified company wants to be "focused" today, with its assets redeployed in all the right areas. Very few are.



Diversified companies

By Jay Gissen

"JETTISONING THE JUNK" is what some might call this new chapter in the conglomerate saga.

Of course, that's not what the chief executives call it at Penn Central, Ogden, Alco Standard, Gulf & Western, U.S. Industries or IU International. At those companies they say they're redeploying their assets, divesting, deconglomerating or consolidating. At City Investing, Northwest Industries, FMC and Litton they're thinking about becoming what Northwest Chairman Ben Heineman, 69, calls a "focused conglomerate."

If that means concentrating on those acquisitions you seem to understand best, then Penn Central qualifies as a focused conglomerate. It had been busy company-shopping, shrewdly for the most part, since it came out of bankruptcy in 1978. PC finally divested itself of its Arvida real estate development subsidiary whose cyclical performance and dreary growth prospects don't fit in with PC's new emphasis. Penn Central will now derive well over half its revenues and profits from oil- and gas-related products and services and the rest from electronics and telecommunications (through its GK Technologies subsidiary, acquired in 1981). The oil and gas glut is depressing earnings now, but with $2.3 billion in tax-loss carryforwards and more divestitures expected this year, PC CEO Al Martinelli will not lack the wherewithal to consolidate the company's position in the two areas where he has decided to concentrate.

Also "focusing" are U.S. Industries and Gulf & Western. U.S. Industries is

I KNOW YOU BELIEVE YOU
UNDERSTAND WHAT YOU THINK
I SAID, BUT I AM NOT SURE YOU
REALIZE THAT WHAT YOU HEARD
IS NOT WHAT I MEANT

Litton Industries CEO Fred O'Green

He has $1.24 billion cash to help make Litton less diversified.

essentially getting out of its consumer-oriented businesses right in the midst of a consumer-led recovery because, belatedly, Chairman Gordon Walker decided the product lines had inadequate market share. Walker now plans to concentrate instead on industrial equipment and building materials, two rather obvious choices one year into a recovery.

USI's Walker and Penn Central's Martinelli scarcely see eye-to-eye with Gulf & Western's Martin Davis. G&W is getting out of building materials, energy products and natural resources to concentrate on consumer and industrial products, entertainment and finance. G&W's Davis is steadily selling the company's assets, which should generate some $275 million in cash.

Alco Standard has decided to concentrate on distribution. With the sale of some 45% of its manufacturing assets (23 manufacturing companies were sold in 1983), over 80% of sales and over two-thirds of profits will come from the distribution area. Explains CEO Ray Mundt: "We have recognized that we can do best those things that we know about." Mundt's strategy now is to fill in the geographic areas where Alco Standard is not yet distributing, using, of course, cash generated from the recent divestitures. Litton Industries is getting out of business systems and will spend some of its $1.24 billion in cash on technology-related acquisitions. "We were too diversified," says Litton's CEO Fred O'Green. "Now we are sharpening the focus."

The impetus for the focused conglomerate trend is obvious. Something had to be done. One glance at the latest-12-months columns in the Forbes Profitability rankings shows that diversified companies and conglomerates suffered more than the average company, because of their concentration in the older and still depressed industries like machine tools, construction, materials handling machinery, aviation and energy. Look at Amfac. It's in six different businesses, most of which are lagging competitors. Its five-year average return on capital is a dismal 6.3%. Bangor Punta is in similar straits, with a five-year average return on capital of 5.1%. Even longtime Wall Street favorite Henry Singleton of Teledyne was having trouble in construction machinery, in specialty metals, in offshore rigs and in property and casualty insurance.

"A lot of managers began to understand ten years ago that there was a second financial statement called the

75

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balance sheet and not just one called a profit and loss statement," says AMF CEO W. Thomas York. AMF, which grew rich in the bowling boom of the mid-Fifties through the early Sixties, became a leisure time conglomerate and tried electronics controls and oil services. Through 1981 its return on assets and return on equity had steadily improved and debt had come down. For most of 1983, however, the company ran into the red because of the downturn in oil services.

Debt reduction has been the order of the day among conglomerates. For the period 1968-73, for example, conglomerate net debt was greater than general industry net debt—45% of capital vs. 24%. Since 1973 the excess has decreased, disappearing entirely in 1981. Today it is slightly less than general industry net debt. At Litton Industries, for example, long-term debt is now down to $233 million after being as high as $643 million several years ago. Among the other big long-term debt reducers: Signal, Allied, TRW, National Distillers and FMC. Plus, at year-end 1982, conglomerate short-term debt was 3.6% of invested capital vs. 8.8% for general industry.

But there is a cost to these better-looking balance sheets: older plant and equipment.

Most of the improvement in conglomerate balance sheets stems from restricting capital spending relative to sales growth. The conglomerates' invested capital has been growing much more slowly than general industry's since 1973—7.6% vs. 11.3%. Those numbers are all the more dramatic,

Diversified companies

Yardsticks of management performance

	Profitability								**Growth**			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Multicompanies												
Esmark	1	25.1%	18.5%	0.6	4	14.8%	12.3%	3.5%	23	–5.5%	1	21.8%
American Brands	2	22.1	19.5	0.2	3	16.5	15.2	5.6	8	8.6	2	18.0
IU International	3	21.1	13.1	0.8	11	9.4	8.0	2.2	21	1.8	4	13.3
Minn Mining & Mfg	4	21.1	18.5	0.1	1	18.3	16.1	9.6	5	11.6	8	11.5
General Electric	5	20.3	19.4	0.1	2	18.3	17.7	7.3	6	9.9	7	12.0
Martin Marietta	6	17.9	22.3	1.4	9	11.4	6.4	2.8	1	17.8	5	12.7
American Standard	7	17.7	8.5	0.4	7	12.8	6.4	2.4	17	6.0	9	10.2
Rollins	8	17.1	1.8	0.0	5	14.7	1.9	1.0	4	12.8	11	7.5
Westinghouse Electric	9	15.4	12.8	0.2	6	13.7	12.1	4.3	12	7.8	3	15.5
Borg-Warner	10	13.5	12.1	0.2	8	12.3	10.9	5.1	7	8.9	6	12.5
City Investing	11	13.0	9.7	1.2	13	9.2	8.5	2.2	2	15.3	10	9.5
FMC	12	12.8	12.1	0.3	12	9.3	8.6	4.6	11	7.9	12	7.1
Household Intl	13	11.8	13.5	2.1	19	6.8	7.3	2.5	3	14.1	15	0.9
Corning Glass Works	14	11.5	9.7	0.4	10	9.9	7.3	6.2	14	7.4	13	5.7
Union Carbide	15	11.1	4.3	0.4	18	8.1	3.8	2.5	10	8.0	16	0.9
Intl Tel & Tel	16	10.9	10.1	0.5	16	8.9	8.5	4.2	18	5.9	14	3.3
Textron	17	10.2	6.7	0.2	15	8.9	6.4	2.9	19	3.8	18	–1.7
RCA	18	10.1	8.4	0.8	14	9.0	7.8	2.5	9	8.2	19	–2.2
National Distillers	19	9.8	4.4	0.2	17	8.1	4.5	2.3	15	6.3	20	–2.4
Olin	20	8.2	6.9	0.3	20	6.5	5.7	3.0	16	6.1	17	–0.9
AMF	21	6.5	def	0.4	21	5.4	def	def	20	1.9	21	–6.8
Koppers	22	5.1	0.5	0.4	22	5.3	2.8	0.8	13	7.5	23	–16.2
U S Industries	23	3.1	7.8	0.2	23	3.6	6.8	3.0	22	–4.7	22	–11.0
Medians		12.8	9.7	0.4		9.3	7.3	2.9		7.8		7.1
Conglomerates												
Teledyne	1	26.2%	12.0%	0.3	2	19.8%	10.4%	8.7%	20	7.9%	3	24.5%
Litton Industries	2	24.7	14.0	0.1	4	17.3	11.1	4.9	21	6.3		D–P
Raytheon	3	23.0	17.4	0.0	1	22.0	17.0	5.2	7	15.1	5	17.8
Lear Siegler	4	22.1	15.2	0.3	5	14.8	12.1	4.5	13	12.3	6	16.0
Northwest Industries	5	21.3	1.7	0.5	8	12.5	2.3	0.6	19	9.4	8	13.8
Whittaker	6	19.6	9.7	0.5	3	18.4	14.5	2.0	8	14.6	2	31.4
Fuqua Industries	7	18.6††	39.8	2.7	17	8.3††	17.0	5.4	6	15.6	1	42.0
Alco Standard	8	18.0	14.3	0.4	6	13.1	10.8	2.0	5	16.4	11	10.1
TRW	9	17.4	12.2	0.2	10	11.5	8.6	3.5	15	10.9	13	7.7
Scott & Fetzer	10	16.3	15.4	0.4	6	13.1	12.5	5.0	12	12.8	14	6.6
United Technologies	11	16.3	14.7	0.3	9	12.1	11.0	3.4	2	21.1	12	8.9
Figgie Intl Holdings	12	15.8	13.1	0.6	14	9.1	8.8	3.3	22	6.2	7	15.2
W R Grace	13	15.0	7.1	0.5	11	10.4	5.5	2.6	17	9.7	15	6.4
Kidde	14	14.5	10.7	0.6	12	9.6	7.7	3.3	11	13.1	10	11.8
Ogden	15	14.2	10.2	1.1	15	8.7	7.5	3.0	23	5.2	18	3.4

Note: Explanation of Yardsticks calculations on page 38.
††Three-year average D–P: deficit to profit, not ranked def: deficit

and worrying since conglomerates are heavily weighted to capital-intensive businesses, where they often enjoy a commanding market share.

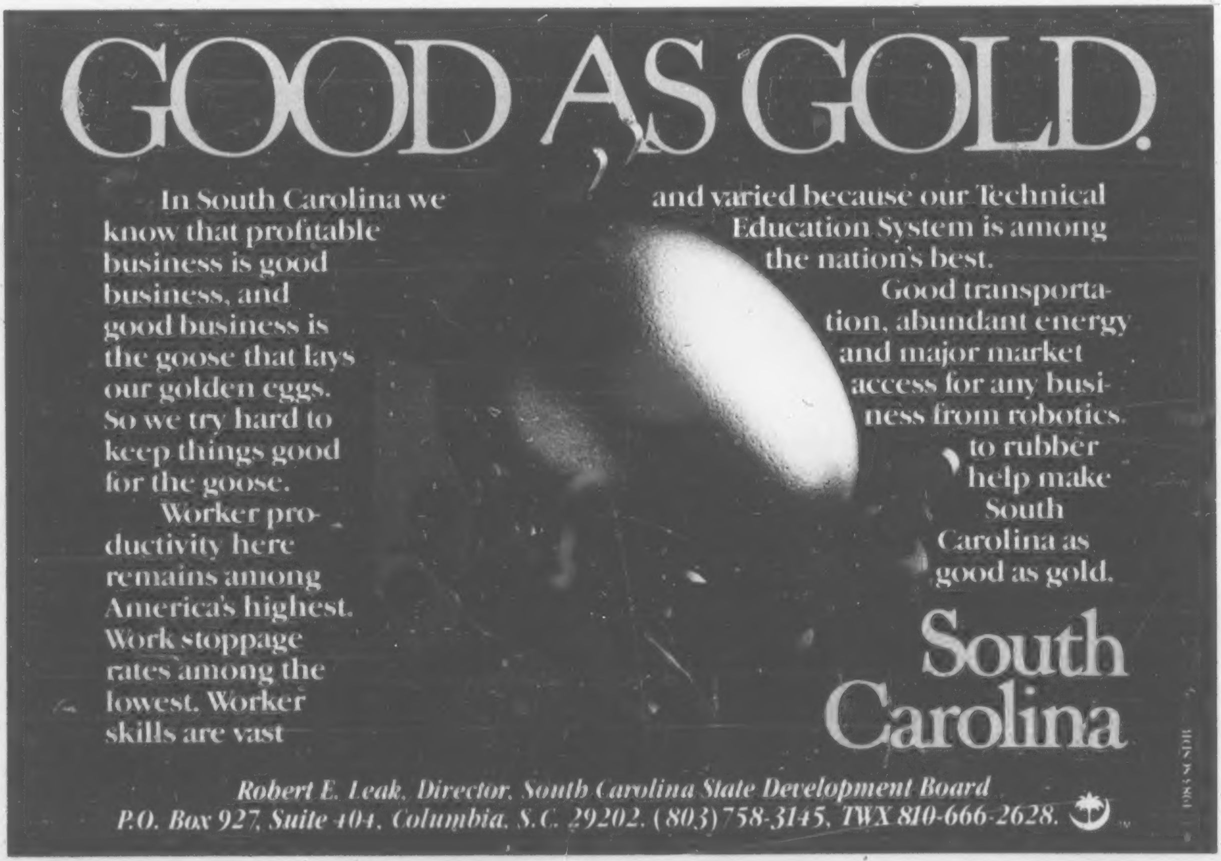
It all boils down to this: The old-time conglomerate à la Jimmy Ling and Charlie Bluhdorn is disappearing. High interest rates helped kill it, but more basically it was an idea whose time never came: A management can do only so many things. "Constant diversity is a trap," says Ken Semelsberger, Scott & Fetzer vice president for finance. The conglomerate had a good run—from the time Royal Little invented it in the 1950s—but it never really worked well. "Focused" conglomerate? Just another way of saying no conglomerate at all. ■

Diversified companies

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Company	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Allied Corp	16	11.6%	9.0%	0.2	18	8.2%	7.4%	3.7%	3	18.8%	17	4.4%
Signal Cos	17	11.5	3.4	0.3	13	9.4	4.0	1.3	10	14.1	16	6.2
Penn Central	18	11.0	5.8	0.3	16	8.3	5.4	4.0	1	41.7‡	4	22.4‡
Gulf & Western Inds	19	10.2	def	0.6	20	6.6	def	def	18	9.6	22	–2.8
Allegheny Intl	20	8.8	def	0.8	19	7.7	2.9	def	9	14.1	20	1.8
Amfac	21	8.4	def	0.8	21	6.3	def	def	16	10.2	21	–2.1
IC Industries	22	8.3	4.6	0.8	22	5.5	4.2	1.6	4	16.5	19	3.1
Bangor Punta	23	6.8	def	0.6	23	5.1	def	def	14	11.7	9	13.5
Sybron	24	3.5	def	0.5	25	4.4	def	def	24	3.7	23	–19.0
Chromalloy American	25	2.7	def	0.9	24	4.5	0.9	def	25	3.4	24	–27.2
Medians		15.0	9.7	0.5		9.4	7.5	3.0		12.3		8.3
Industry medians		13.9	9.7	0.4		9.4	7.5	3.0		9.5		7.5
All-industry medians		15.1	12.6	0.4		10.8	8.6	3.5		12.4		9.4

Note: Explanation of Yardsticks calculations on page 38.
‡Four-year growth. def: deficit.



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Robert E. Leak, Director, South Carolina State Development Board
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Many Forbes industry groups are recovery-bound. But the laggards still waiting for better days are holding down the median.

Who's where in the industry groups

THE COMBINED EFFECTS of the recession and the far-reaching transformation taking place in U.S. industry have left their scars. Among the 46 industry groups ranked here, the median return on stockholders' equity was 12.6% for the latest 12 months, compared with 12.7% one year ago. This is an eight-year low.

The five-year average return on equity is also down, from 15.9% to 15.1% last year. Nevertheless, the magnitude of the drop was relatively slight considering the severe winds that have buffeted the economy in recent years.

Another factor to consider is this: If the absolute figures for return on equity didn't look very good, the real rate of return showed definite improvement in 1983.

What do we mean by "real" rate of return? We are referring to the rate of return adjusted for inflation. Inflation over the 12-month period monitored by the 1983 figures ran at a comparatively mild 2.9%, as compared with 5.1% in last year's survey. Thus the real rate of return was 9.7% in 1983, compared with the 7.6% return in 1982.

Forbes uses medians rather than averages to track industry performance. This filters out distortions caused by windfall profits at the top or staggering losses at the bottom. Why are the medians useful? Because they are a standard for measuring individual companies. Did they do better than their industry's median? Or worse?

Industry groups that performed in 1983 close in line to the all-industry median include contractors, insurance, natural gas, apparel and household goods.

There are only a handful of industry groups that fell from being above the all-industry median in last year's annual report to being below the Yardstick this time around; the leisure industry is an example. Industry groups such as computers, food processors and electronics couldn't keep pace with their levels of the previous year.

Oilfield drillers and services registered the biggest decline. Last year this group had a 23% median return on equity for the latest 12 months. It is now a paltry 1%.

From being the most glittering of businesses, oil services overnight became one of the most tarnished of industries. In statistics it's called regression to the mean. Or, in more homely language, the pride that goeth before a fall.

Industry medians

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales[1]		Earnings per share	
Industry	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Brokerage	1	22.9%	29.5%	0.5	1	18.5%	22.7%	6.5%	1	34.3%	1	28.0%
Tobacco	2	22.1	19.5	0.5	13	13.1	12.4	5.6	26	11.9	3	18.2
Health care	3	19.9	18.0	0.4	11	13.3	14.5	6.8	10	16.2	2	19.7
Beverages	4	19.6	16.7	0.5	9	13.6	10.6	5.8	12	15.5	5	16.3
Alcoholic beverages	—	16.8	14.8	0.3	—	10.9	10.4	7.0	—	12.6	—	21.7
Soft drinks	—	20.7	17.3	0.8	—	14.9	10.6	4.5	—	16.7	—	10.4
Oilfield drillers and services	5	19.2	1.0	0.5	11	13.3	2.4	0.6	6	19.3	11	12.5
Publishing	6	19.1	19.8	0.1	2	17.0	15.5	7.3	14	15.1	9	14.5
Toiletries and cosmetics	7	18.7	15.2	0.2	7	13.9	12.6	6.0	29	11.2	27	8.5
Aerospace and defense	8	18.5	14.8	0.2	15	12.9	11.5	3.3	23	12.4	10	12.7
Drugs	8	18.5	19.0	0.2	4	15.3	16.2	10.6	30	11.1	21	10.5
Office equipment and services	10	17.8	14.3	0.2	6	14.0	11.9	3.9	5	19.4	14	12.2
Office equipment	—	10.2	11.8	0.3	—	12.1	11.0	5.1	—	11.2	—	3.7
Office services	—	23.4	18.3	0.2	—	15.1	14.0	3.2	—	19.9	—	17.5
Specialty retailers	11	17.7	17.3	0.5	13	13.1	12.0	3.2	9	16.4	7	15.5
Drug chains	—	19.8	18.6	0.4	—	15.6	13.7	2.8	—	17.1	—	18.8
Fast food chains	—	19.4	19.9	0.6	—	12.1	12.1	4.2	—	18.5	—	18.6
Other specialists	—	15.7	15.0	0.5	—	12.5	11.4	3.5	—	14.6	—	9.1
Electrical equipment	12	17.5	13.3	0.2	3	16.0	12.2	5.4	17	14.2	12	12.4
Energy	13	17.4	9.9	0.4	19	12.0	7.1	3.3	8	18.8	14	12.2
International oils	—	17.7	9.3	0.3	—	13.2	7.4	3.1	—	15.0	—	12.6
Other oil and gas	—	18.4	10.3	0.5	—	12.3	7.2	3.7	—	21.9	—	12.4
Coal	—	4.7	7.7	0.6	—	4.6	5.2	3.0	—	7.8	—	–23.4
Broadcasting	14	17.1	13.7	0.4	5	14.7	9.3	5.4	22	12.8	20	10.9
Truckers and shippers	15	17.0	13.1	0.5	27	9.9	8.6	3.6	39	9.0	22	9.8
Truckers	—	19.1	13.1	0.8	—	9.5	8.6	3.6	—	10.6	—	10.7
Other surface transportation	—	14.4	11.9	0.5	—	10.3	9.0	3.6	—	3.8	—	9.2
Supermarkets	16	16.5	16.2	0.7	24	10.5	10.5	1.3	25	12.1	8	14.7
Major chains	—	17.1	19.0	0.7	—	11.0	11.5	1.4	—	12.1	—	14.0
Regional chains	—	15.7	13.6	0.7	—	10.3	10.1	1.0	—	12.1	—	15.6
Contractors	17	16.1	12.5	0.4	16	12.6	9.1	1.8	16	14.7	5	16.3
Heavy construction	—	16.7	12.5	0.4	—	13.1	9.7	1.8	—	14.9	—	16.3
Home building	—	13.0	12.2	0.5	—	7.9	6.9	3.0	—	13.0	—	8.1
Leisure	18	15.9	10.2	0.4	23	11.0	7.8	4.6	23	12.4	24	9.3
Hotels and gambling	—	18.3	5.4	1.0	—	10.1	7.0	4.7	—	11.8	—	17.1
Entertainment	—	16.3	13.1	0.3	—	14.0	7.2	7.1	—	14.2	—	8.6
Recreation	—	13.8	10.3	0.3	—	11.8	9.8	4.1	—	12.4	—	7.7
Branded foods	19	15.5	15.8	0.4	17	12.4	12.3	3.5	34	10.1	25	9.1
Diversified	—	15.7	15.9	0.4	—	12.0	12.1	3.5	—	10.3	—	8.7
Specialized	—	15.5	15.8	0.3	—	12.6	12.9	4.1	—	10.1	—	11.0
Insurance	19	15.5	12.4	0.1	7	13.9	11.6	6.9	20	13.0	12	12.4
Life and accident	—	14.1	13.0	0.1	—	12.3	10.9	7.5	—	16.8	—	9.2
Fire and casualty	—	17.2	12.4	0.1	—	17.0	11.7	6.6	—	13.1	—	14.6
Multiple line	—	17.4	13.3	0.2	—	14.1	11.6	5.8	—	12.4	—	12.4
Natural gas	21	15.4	12.3	0.7	30	8.9	7.2	3.4	7	19.1	28	8.1
Producers and pipeliners	—	17.5	12.6	0.7	—	9.4	7.1	3.4	—	23.9	—	10.6
Pipeliners and distributors	—	18.9	15.3	0.7	—	10.4	8.7	5.0	—	19.7	—	10.5
Distributors	—	13.2	10.6	0.7	—	7.7	6.9	2.7	—	18.3	—	6.1
Wholesalers	21	15.4	16.0	0.6	18	12.1	11.0	1.3	20	13.0	18	11.7
Food distributors	—	13.1	14.8	0.6	—	10.2	10.7	0.8	—	13.6	—	10.9
Other wholesalers	—	17.1	17.8	0.4	—	13.1	13.8	2.0	—	11.7	—	12.7
Computers	23	15.1	8.9	0.3	9	13.6	7.6	4.3	3	23.2	4	16.6
Industrial equipment and services	24	15.0	7.1	0.3	21	11.5	6.4	3.0	31	10.6	31	7.0
Production equipment	—	13.2	1.7	0.3	—	11.1	1.9	2.4	—	9.9	—	3.3
Specialty equip, materials	—	14.6	8.2	0.3	—	12.0	6.7	3.2	—	10.2	—	6.8
Industrial services	—	20.8	18.3	0.5	—	14.7	11.0	6.0	—	25.0	—	22.1

Note: Explanation of Yardsticks calculations on page 38.

Industry medians

Yardsticks of management performance

	Profitability								Growth			
	Return on equity				Return on total capital				Sales		Earnings per share	
Industry	5-year rank	5-year average	latest 12 months	debt/ equity ratio	5-year rank	5-year average	latest 12 months	net profit margin	5-year rank	5-year average	5-year rank	5-year average
Electronics	25	14.9%	11.1%	0.3	21	11.5%	8.5%	5.0%	14	15.1%	19	11.3%
Banks	26	14.7	13.2	0.3	19	12.0	11.3	6.7	4	20.4	14	12.2
New York banks	—	14.7	14.6	0.5	—	11.6	11.4	5.3	—	21.7	—	12.3
Regional banks	—	14.6	12.9	0.3	—	12.1	11.3	6.9	—	20.3	—	12.2
Telecommunications	27	14.6	14.4	0.8	39	7.5	7.7	8.7	17	14.2	33	6.3
Food processors	28	14.1	9.2	0.4	25	10.0	7.2	1.7	32	10.5	23	9.4
Meatpackers	—	14.0	10.3	0.8	—	9.3	8.5	0.9	—	7.1	—	9.6
Agricultural commodities	—	15.1	8.3	0.3	—	10.7	6.9	2.1	—	13.0	—	7.5
Diversified companies	29	13.9	9.7	0.4	28	9.4	7.5	3.0	36	9.5	29	7.5
Multicompanies	—	12.8	9.7	0.4	—	9.3	7.3	2.9	—	7.8	—	7.1
Conglomerates	—	15.0	9.7	0.5	—	9.4	7.5	3.0	—	12.3	—	8.3
Chemicals	30	13.2	9.2	0.4	25	10.0	7.1	3.9	35	9.9	36	4.4
Diversified	—	11.6	7.4	0.3	—	8.8	6.0	2.8	—	8.9	—	−0.6
Specialized	—	15.8	11.5	0.4	—	10.7	7.5	5.3	—	10.7	—	10.8
Electric utilities	31	12.9	14.9	0.8	40	7.2	7.9	12.1	19	14.0	37	3.7
Northeast	—	12.6	14.9	0.8	—	7.3	8.3	11.1	—	12.9	—	4.7
Midwest	—	13.2	15.6	0.9	—	7.2	7.9	12.5	—	13.5	—	3.9
Southeast	—	12.4	13.9	0.8	—	6.6	6.9	11.1	—	13.8	—	3.0
Southwest	—	14.0	15.7	0.8	—	7.7	8.4	13.0	—	17.6	—	4.6
West	—	12.8	13.8	0.9	—	7.9	8.0	15.3	—	19.0	—	3.3
General retailers	32	12.5	13.8	0.7	29	9.3	10.4	2.8	27	11.7	29	7.5
Department stores	—	12.2	13.6	0.6	—	9.4	10.6	3.5	—	11.2	—	7.7
Discount and variety stores	—	12.9	14.1	0.8	—	9.3	10.3	2.3	—	11.7	—	4.9
Financial services	33	11.8	9.1	1.7	33	8.3	6.3	3.5	11	15.8	39	1.8
Packaging	34	11.0	5.4	0.5	35	8.0	6.0	1.9	33	10.3	35	6.1
Apparel	35	10.9	12.9	0.3	30	8.9	10.5	3.5	43	7.3	26	8.7
Clothing	—	12.2	13.7	0.3	—	11.0	11.2	3.6	—	7.8	—	11.7
Textiles	—	8.3	7.9	0.4	—	7.0	6.8	3.0	—	5.8	—	1.9
Shoes	—	22.9	20.3	0.2	—	17.0	16.2	4.3	—	11.9	—	19.1
Railroads	36	10.8	8.0	0.5	41	7.1	5.3	5.4	28	11.5	17	11.8
Household goods	37	10.6	12.7	0.4	32	8.5	9.7	3.8	37	9.4	34	6.2
Appliances	—	10.5	12.8	0.4	—	8.4	10.0	3.3	—	7.8	—	4.0
Housewares and furnishings	—	9.4	9.5	0.4	—	7.2	7.2	2.7	—	10.3	—	−2.3
Housekeeping products	—	16.4	17.7	0.3	—	13.6	14.2	5.6	—	10.1	—	8.3
Forest products	38	9.9	4.5	0.5	37	7.6	4.3	2.4	38	9.3	38	2.0
Nonferrous metals	39	9.4	def	0.6	34	8.2	1.8	0.4	40	8.9	32	6.4
Building materials	40	9.2	8.0	0.5	37	7.6	6.4	2.6	42	7.9	40	−0.1
Lumber	—	8.4	3.4	0.6	—	6.0	3.4	1.7	—	9.4	—	−5.2
Cement and gypsum	—	9.8	2.7	0.9	—	7.8	3.7	2.3	—	7.5	—	0.6
Other building materials	—	8.6	9.4	0.5	—	7.2	7.3	2.8	—	7.8	—	−4.6
Building equipment	—	14.8	11.0	0.5	—	11.3	8.5	2.8	—	9.3	—	10.3
Auto suppliers	41	8.9	8.4	0.4	36	7.9	6.8	2.7	41	8.2	41	−2.2
Tire and rubber	—	5.1	6.5	0.5	—	5.2	5.6	2.4	—	4.7	—	−7.8
Partsmakers	—	11.9	11.2	0.4	—	9.7	8.0	3.2	—	9.2	—	−0.2
The thrifts	42	6.9	21.0	0.3	42	6.8	18.9	4.6	2	23.7	45	−24.0
Construction, mining, rail equipment	43	6.5	def	0.7	43	5.8	def	def	44	5.8	42	−13.6
Heavy equipment	—	4.2	def	0.5	—	4.3	def	def	—	5.3	—	−22.7
Rail equipment	—	9.8	def	1.2	—	6.2	1.7	def	—	6.9	—	−0.2
Steel	44	4.2	def	0.5	44	5.1	def	def	45	5.6	43	−14.6
Autos and trucks	45	3.8	def	0.4	45	4.5	1.2	1.3	46	5.0	44	−17.3
Airlines	46	def	def	1.5	46	3.0	0.7	def	12	15.5	46	P-D
All-industry medians	—	13.1	12.6	0.4	—	10.8	8.6	3.5	—	12.4	—	9.4

Note: Explanation of Yardsticks calculations on page 38.
P–D: profit to deficit. def: deficit.

The true test of management is what kind of return it earns on its shareholders' capital. For growth without profitability is worse than no growth at all.

Who's where in profitability

EARNINGS ARE ONLY meaningful when expressed in terms of the size of the company that generates them. Earnings of $5 million might be fantastic for a tiny growth company but a near disaster for a Goliath like Mobil. The way to put earnings into perspective is to match them to shareholders' equity. Accountants call this ROE—return on equity—but we call it "basic profitability," and it is expressed as a percentage of equity capital. A company with $1 million in equity capital and profits of $150,000 would have an ROE, basic profitability, of 15%.

To see how most Yardsticks companies fared in profitability in 1983, refer to the report on page 250. The all-industry median ROE for the latest 12 months for all 1,008 companies is 12.6%, off a shade from 1982's 12.7%. No surprise that brokerage houses show the highest return, 29.5%. Tobacco is second again. Meanwhile, nonferrous metals, construction, mining and rail equipment, autos and trucks, steel and airlines all show negative returns. These are rough times for heavy industry.

Be warned, though: These figures for basic profitability can be distorted. A company may take huge writeoffs against stockholders' equity that shrink, temporarily at least, its equity base. Obviously, even mediocre earnings will look outstanding when expressed as a percentage of that shrunken equity base. End result: an extraordinarily high, and misleading, return on equity. In the past, both Geico and Lockheed were good examples of this. But they have since rebuilt their equity.

A decline in ROE, if from a very high base, isn't necessarily a danger sign. Apple Computer is still ranked number one with its five-year average ROE of 100.5%. But now look at Apple's performance for the latest 12 months—a still impressive, but significantly smaller, 28.4%. There is no way in the world that any company could continue earning 100% on equity. Competition always sees to that and certainly has in Apple's case.

Since return on equity only measures profits against what shareholders have invested in a business, and doesn't show what the company has borrowed, Forbes also calculates return on total capital—stockholders' equity plus long-term debt. Generally this is a more reliable measure of profitability because it measures the true amount of capital companies have invested in the business. Be cautious about a company with a high ROE but a mediocre return on capital; that company may be leveraged to the danger point and vulnerable to a downturn or setback. Look at Big Bear, a relatively new NASDAQ listing. This Ohio-based supermarket chain ranks sixth with its five-year average return on equity of 48.9%. But now look to the right at its five-year return on capital: just 16.4%, which ranks 150th. Big Bear's dynamic ROEs come from heavy debt leverage.

Using the federal government's gross national product price deflator as a rough guide, inflation has averaged 7.6% a year over the most recent five years. A third of the companies surveyed failed to show a return on capital that matched inflation in 1982, and in 1983 it got worse: More than 40% of the firms failed the same test. The outlook for next year is brighter as the economy continues to improve, but, clearly, profitability in U.S. industry isn't what it should be.

Who's where in profitability

	Return on equity			Return on capital				Return on equity			Return on capital		
Company	rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months	Company	rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months
Apple Computer	1	100.5%	28.4%	1	110.4%	28.2%	Allied Bancshares	64	26.3%	25.3%	27	23.9%	24.1%
Metromedia	2	80.6	55.1	8	31.5	18.2	Teledyne	65	26.2	12.0	67	19.8	10.4
NIKE	3	77.6	30.3	2	65.6	30.0	Savannah Foods	66	26.2	35.1	114	17.2	25.4
Coleco Industries	4	59.7	44.2	6	35.2	27.0	Shaklee	67	25.7	28.0	68	19.8	23.2
Subaru of America	5	59.2	45.8	3	54.1	39.1	Toys "R" Us	68	25.5	20.6	50	21.1	19.3
Big Bear	6	48.9	35.9	150	16.4	17.3	Pennzoil	69	25.4	12.9	316	12.9	7.1
Tandy	7	45.2	29.3	12	28.8	25.9	First Executive	70	25.3	18.2	23	24.6	20.5
Fin Corp of America	8	42.8	82.0	20	25.3	52.7	Melville	71	25.3	21.6	26	23.9	21.2
Standard Oil Ohio	9	42.8	23.0	55	20.7	14.5	Dover	72	25.2	16.7	37	22.3	15.5
ROLM	10	41.4	10.9	5	38.3	10.5	Esmark	73	25.1	16.5	205	14.8	12.3
Comdisco	11	40.8	46.0	34	23.0	30.8	Wendy's International	74	24.8	19.5	65	20.0	14.7
L B Foster	12	39.8	def	621	8.8	def	Turner Construction	75	24.8	25.4	46	21.4	17.4
ServiceMaster Inds	13	39.7	44.2	4	40.0	43.3	Litton Industries	76	24.7	14.0	113	17.3	11.1
GEICO	14	38.6	24.9	39	22.2	20.4	Dorchester Gas	77	24.6	12.7	239	14.2	7.2
Phibro-Salomon	15	36.5	25.1	14	28.1	19.0	Kelly Services	78	24.5	18.3	24	24.6	18.2
Charter	16	35.8	3.3	53	20.9	5.3	Freeport-McMoran	79	24.3	12.4	136	16.7	6.7
Bruno's	17	35.3	28.8	31	23.5	22.3	Abbott Laboratories	80	24.2	25.1	71	19.6	20.5
SmithKline Beckman	18	35.1	26.4	9	31.2	23.3	Levi Strauss	81	24.0	19.2	47	21.3	17.4
Mitchell Energy & Dev	19	35.0	18.6	360	12.4	7.9	Fort Howard Paper	82	24.0	22.7	82	18.9	18.3
Student Loan Mktg	20	34.7	43.4	663	8.3	6.2	AMP	83	23.9	20.1	52	20.9	17.8
American Home Products	21	33.9	34.7	7	33.4	32.4	Nucor	83	23.9	10.5	87	18.6	9.4
Federal Express	22	33.7	22.0	41	22.0	14.7	ConAgra	85	23.9	19.8	139	16.6	15.5
Schlumberger	23	33.6	21.7	11	31.1	20.3	Trinity Industries	86	23.8	7.0	83	18.8	6.6
Texas Oil & Gas	24	33.3	31.9	159	16.1	15.2	Maytag	87	23.7	27.5	40	22.1	23.7
Limited	25	33.2	40.0	28	23.8	25.5	PHH Group	88	23.7	20.0	808	6.6	8.3
Wal-Mart Stores	26	33.1	33.0	44	21.5	21.1	Philip Morris	88	23.7	23.7	303	13.1	12.4
Humana	27	32.6	34.2	364	12.4	14.7	Pioneer Hi-Bred Intl	90	23.6	13.1	58	20.5	12.2
Pulte Home	28	32.3	49.1	125	17.0	26.1	American Stores	91	23.6	25.6	177	15.5	14.2
Dow Jones	29	32.1	31.3	13	28.8	27.8	Nalco Chemical	92	23.5	18.4	36	22.9	17.8
Food Lion	30	31.9	26.9	19	25.7	21.2	Avon Products	93	23.5	14.9	33	23.1	11.7
G Heileman Brewing	31	31.7	28.7	43	21.9	14.5	United Energy Resources	94	23.5	5.7	152	16.3	4.5
Dun & Bradstreet	32	31.3	32.0	10	31.1	32.1	Computer Sciences	95	23.4	11.0	208	14.7	9.1
Wang Laboratories	33	31.3	20.8	59	20.5	15.3	Hilton Hotels	96	23.4	18.6	107	17.5	13.2
Pioneer	34	30.7	21.2	138	16.6	10.8	Big V Supermarkets	97	23.3	18.2	164	15.8	12.5
MCI Communications	35	30.6	28.1	97	18.2	13.6	Houston Natural Gas	98	23.2	15.1	209	14.7	10.6
E F Hutton Group	36	30.3	31.1	22	24.8	22.7	IBM	99	23.2	25.6	49	21.2	22.6
EG&G	37	29.6	25.3	18	26.4	23.3	Fremont General	100	23.1	def	96	18.3	1.5
Todd Shipyards	38	29.2	17.1	126	16.9	10.4	Western Co No Amer	101	23.1	def	424	11.5	2.9
General Cinema	39	29.2	54.3	165	15.8	22.0	Dean Foods	102	23.0	22.3	130	16.8	17.5
Allegheny Beverage	40	29.0	35.3	252	14.0	10.2	Raytheon	103	23.0	17.4	42	22.0	17.0
Deluxe Check Printers	41	29.0	28.9	17	26.5	26.1	Ashland Oil	104	23.0	5.7	356	12.4	5.1
Global Marine	42	28.9	13.7	291	13.3	6.6	Waste Management	105	22.9	18.0	149	16.4	13.5
MEI	43	28.5	27.1	114	17.2	15.4	Brown-Forman Dist	106	22.9	21.6	102	17.8	18.5
Tosco	44	28.3	def	531	9.9	def	Merrill Lynch	107	22.9	26.9	90	18.5	20.3
Swift Independent	45	28.1	22.1	172	15.6	14.6	Valero Energy	108	22.8	13.7	428	11.4	7.5
Tesoro Petroleum	46	28.1	12.9	161	16.0	10.1	Republic New York	109	22.8	18.6	174	15.6	13.6
VF	47	27.9	37.5	29	23.8	32.3	Merck	110	22.8	20.2	76	19.2	15.8
SEDCO	48	27.9	33.8	177	15.5	18.2	McDonald's	111	22.8	21.7	290	13.3	13.3
Kellogg	49	27.7	27.6	30	23.6	25.2	Trust Co of Georgia	112	22.7	24.0	75	19.3	21.6
Worthington Inds	50	27.6	17.2	101	17.9	11.6	Resorts Intl	113	22.7	10.1	100	18.0	8.3
First Boston	51	27.6	29.5	15	27.6	29.7	Bristol-Myers	114	22.6	22.9	51	21.0	21.5
Marsh & McLennan Cos	52	27.6	26.2	16	27.0	23.4	Rite Aid	115	22.6	22.6	61	20.2	20.1
Natl Convenience Stores	53	27.5	23.1	284	13.5	11.1	Alexander & Alexander	116	22.6	def	21	25.0	0.5
Parsons	53	27.5	25.3	25	24.2	23.2	Loews	117	22.5	22.2	338	12.6	14.1
SCOA Industries	55	27.5	20.7	121	17.2	13.3	Entex	118	22.5	19.7	369	12.3	11.5
Occidental Petroleum	56	27.3	def	203	14.9	3.1	Albertson's	119	22.4	19.0	276	13.6	13.0
Lockheed	57	27.0	50.6	459	10.9	23.2	McGraw-Hill	120	22.3	22.5	60	20.2	20.8
Super Valu Stores	58	26.8	22.6	90	18.5	16.2	Murphy Oil	121	22.3	16.3	262	13.9	11.3
James River Corp Va	59	26.7	25.0	137	16.7	17.5	Washington Post	122	22.3	23.9	99	18.1	20.9
Mission Insurance	60	26.6	12.4	32	23.5	11.7	Coca-Cola	123	22.2	19.9	62	20.2	16.4
Emery Air Freight	61	26.5	24.1	38	22.3	13.5	Kaneb Services	124	22.1	16.2	296	13.2	9.4
Tyco Laboratories	62	26.5	13.2	220	14.5	8.9	Fairchild Industries	125	22.1	6.1	145	16.5	6.5
Electronic Data Systems	63	26.4	27.4	34	23.0	22.7	American Brands	126	22.1	19.5	148	16.5	15.2

*For some companies (as noted in the individual Yardsticks tables) the average return is for less than five years.
def: deficit.

Who's where in profitability

Company	Return on equity			Return on capital		
	rank	5-year average*	latest 12 months	rank	5-year average*	latest 12 months
Reynolds Metals	883	5.3%	def	914	4.1%	def
Northwestern Steel	884	5.1	def	881	5.2	def
Koppers	885	5.1	0.5%	873	5.3	2.8%
Bell & Howell	886	5.1	19.2	894	4.7	14.5
Eaton	887	5.0	2.0	910	4.3	3.7
Primark	888	4.9	5.3	921	3.9	4.4
Pittston	889	4.7	def	900	4.6	def
Polaroid	890	4.5	3.7	893	4.8	4.1
Allen Group	891	4.5	def	895	4.7	2.3
AMAX	892	4.4	def	866	5.5	def
Macmillan	893	4.4	15.2	901	4.5	13.0
F W Woolworth	893	4.4	14.1	911	4.2	10.4
American Can	895	4.3	6.7	912	4.2	6.5
H F Ahmanson	896	4.2	12.6	917	4.0	11.6
Beneficial Corp	897	4.1	9.1	884	5.1	5.9
Zenith Radio	897	4.1	5.9	904	4.5	5.5
Crown Zellerbach	899	3.9	2.8	914	4.1	4.1
Genesco	900	3.9	def	896	4.7	3.7
Fruehauf	901	3.8	def	901	4.5	1.2
Scot Lad Foods	902	3.8	def	907	4.4	2.3
B F Goodrich	903	3.7	def	892	4.8	2.3
Del E Webb	904	3.7	0.7	873	5.3	3.9
Oak Industries	905	3.6	def	644	8.5	def
Sybron	906	3.5	def	905	4.4	def
Savin	907	3.5	def	434	11.3	def
J P Stevens	908	3.4	2.9	919	3.9	3.6
Manville	909	3.3	9.4	909	4.3	6.8
Cyclops	910	3.2	def	922	3.8	def
Northwest Airlines	911	3.2	4.2	947	2.4	3.4
General Public Utils	912	3.1	3.2	922	3.8	3.8
U S Industries	913	3.1	7.8	925	3.6	6.8
Phelps Dodge	914	2.9	def	940	2.9	def
Firestone	915	2.8	7.3	932	3.1	5.7
Gt Western Financial	916	2.8	5.6	918	3.9	6.1
Chromalloy American	917	2.7	def	903	4.5	0.9
Dravo	918	2.7	def	908	4.4	def
Clark Equipment	919	2.4	3.1	946	2.6	3.8
Kane-Miller	920	2.3	def	928	3.3	def
Foodarama Supermkts	921	2.2	3.8	914	4.1	5.4
Peabody Intl	922	2.2	6.2	913	4.1	5.5
A O Smith	923	2.1	2.2	930	3.2	3.7
Mohasco	924	1.9	3.0	942	2.8	3.3
Hanna Mining	925	1.8	def	949	2.1	def
Southwest Forest Inds	926	1.7	def	864	5.5	0.5
Kaufman & Broad	927	1.7	0.9	938	3.0	4.0
Lukens	928	1.6	def	934	3.0	def
Amer Hoist & Derrick	929	1.6	def	944	2.7	def
Kerr Glass Mfg	930	1.5	def	899	4.6	def
Borman's	931	1.5	0.8	931	3.1	2.5
Alexander's	932	1.4	7.9	945	2.7	5.3
National-Standard	933	1.3	def	955	1.6	def
United States Steel	934	1.1	def	922	3.8	def
Nashua	935	1.0	def	937	3.0	def
CertainTeed	936	0.6	8.2	941	2.8	7.1
Westmoreland Coal	937	0.4	4.5	948	2.1	5.1
Mack Trucks	938	0.1	def	943	2.8	def
AMR	939	def	9.9	936	3.0	6.8
Jonathan Logan	940	def	13.3	963	0.9	11.8
Toro	941	def	1.4	891	4.8	4.8
Inland Steel	942	def	def	958	1.1	def
Trans World	943	def	def	920	3.9	3.6
Chic Pneumatic Tool	944	def	def	934	3.0	def
Uniroyal	945	def	4.8	951	1.8	4.7
Fedl Natl Mortgage	946	def	5.1%	876	5.3%	5.5%
Graniteville	947	def	def	962	1.0	def
UAL	948	def	2.0	954	1.6	3.8
Republic Steel	949	def	def	965	0.0	def
Armco	950	def	def	964	0.1	def
Ford Motor	951	def	14.0	966	def	10.4
Evans Products	952	def	def	865	5.5	def
Gibraltar Financial	953	def	21.0	961	1.0	18.9
Singer	954	def	0.1	952	1.7	3.0
Ramada Inns	955	def	def	927	3.3	4.3
Cook United	956	def	def	933	3.0	0.7
Kaiser Steel	957	def	def	970	def	0.8
Gulf Resources & Chem	958	def	11.8	950	2.0	7.3
Talley Industries	959	def	7.6	953	1.7	7.2
Wheeling-Pitts Steel	960	def	def	959	1.1	def
Interstate Bakeries	961	def	def	960	1.1	def
Marion	962	def	def	897	4.7	def
Mattel	963	def	def	929	3.2	def
National Intergroup	964	def	def	975	def	def
GAF	965	def	def	974	def	3.2
American Bakeries	966	def	def	976	def	def
Keystone Consolidated	967	def	def	981	def	def
Inco	968	def	def	970	def	def
Great Atl & Pac Tea	969	def	8.0	978	def	6.5
Wilson Foods	970	def	def	980	def	def
Bird	971	def	def	983	def	def
NVF	972	def	def	861	5.6	def
Baldwin-United	973	def	def	823	6.4	def
First Pennsylvania	974	def	def	972	def	2.7
Bethlehem Steel	975	def	def	989	def	def
United Brands	976	def	def	987	def	def
Harnischfeger	977	def	def	985	def	def
United Merch & Mfrs	978	def	def	973	def	1.4
Allis-Chalmers	979	def	def	988	def	def
Tiger International	980	def	def	956	1.5	def
Pan Am World Airways	981	def	def	978	def	def
Eastern Air Lines	982	def	def	957	1.3	def
HRT Industries	983	def	def	969	def	def
Revere Copper	984	def	def	982	def	def
General Refractories	985	def	def	990	def	def
Pettibone	986	def	def	984	def	def
Intl Harvester	987	def	def	992	def	def
American Motors	988	def	def	993	def	def
Western Air Lines	989	def	def	977	def	def
Texas Air	990	def	def	939	2.9	def
Republic Airlines	991	def	def	968	def	def
AM International	992	def	NE	995	def	12.7
Wickes Cos	993	def	def	986	def	def
Massey-Ferguson	994	def	def	994	def	def
Chrysler	995	def	NE	991	def	11.8
Rath Packing	996	def	def	996	def	def
Allied Supermarkets	997	def	4.0	926	3.5	5.9
Pantry Pride	998	def	NE	967	def	6.3
American President		**	**		**	**
Calif Federal S&L		**	**		**	**
CIGNA		**	9.4		**	8.9
Glendale Federal S&L		**	**		**	**
Gulfstream Aerospace		**	67.5		**	30.8
Home Federal S&L-Cal		**	**		**	**
Imperial Corp of Am		**	def		**	def
Masonite		**	9.8		**	8.7
Pabst Brewing		**	**		**	**
RLC		**	6.9		**	5.5

*For some companies (as noted in the individual Yardsticks tables) the average return is for less than five years
def: deficit. NE: negative equity. **Not available; not ranked.

American corporate earnings and sales should start growing again, but the pecking order has changed. Forbes ranks 1,008 firms for five-year averages and latest 12 months' growth.

Who's where in growth

UNEASY LIES THE CROWN. For the year 1982 Apple Computer was number one in earnings growth in the Forbes Annual Report. Still going strong, Apple Computer was number five for 1983. This was no mean accomplishment: The Annual Report covers more than 1,000 large U.S. companies (1,008, to be precise). Can Apple stay out front? It won't be easy to maintain the pace that you need to stay with the frontrunners in this kind of competition. For how many years, after all, can you go on doubling your earnings as Apple has?

Top position this year goes to McLean Industries. Run by Malcolm McLean, the pioneer of containerized shipping, this is the holding company for U.S. Lines and Moore McCormack Lines. Shopwell, a New York-based supermarket chain, ranks second, helped by a surge in earnings in 1982 and losses in prior years. But note that Shopwell ranks only 648 on five-year sales growth. Unlike some of its furiously expanding rivals, Shopwell's growth in earnings stems largely from the improved margins and greater efficiencies that resulted from renovating existing stores.

Who else is on top? CNA Financial; ROLM, a manufacturer of sophisticated telecommunications equipment; Beverly Enterprises, a provider of nursing homes and other health care services; textile firm M. Lowenstein. A textile firm? Certainly, because remember this: Earnings growth can come from an improvement in margins as well as from superfast growth in revenues. Others on top: NIKE, a footwear manufacturer, and First Executive, an insurance holding company.

This year two energy-related firms, Global Marine and Valero Energy, are among the top ten in five-year earnings growth. But this is not really a sign of a turnaround in oil. Since we are dealing with five-year averages, these two outfits were carried into the top ranks on the strength of how well they did in 1980 and 1981.

In 1982 only 14 of the 40 fastest-growing companies could be characterized as old-line manufacturing or basic transportation firms. This trend continued in 1983. Only 8 of the top 40 growth performers belonged to Smokestack America. Most of the laurels went to financial services, marketing, and computer and electronics companies.

This distribution of growth patterns is hardly surprising, considering that, while heavy industry was at near depression levels, the newer parts of the economy virtually ignored the recession. Meanwhile, the industries that made America great have been pruning, restructuring and writing off outmoded assets.

Predicting the future is a risky business, but we'll venture to suggest that, once the pruning and modernizing is over, heavy industry will make a spectacular comeback on the Growth Yardsticks—especially for earnings growth. The economy was ever thus, for no trend lasts forever.

Who's where in growth

	Earnings per share			Sales		
Company	rank	5-year average*	83† vs 1980-82	rank	5-year average*	83† vs 1980-82
McLean Industries	1	386.3%	30.6%	564	12.1%	27.4%
Shopwell	2	163.0	41.1	648	10.6	16.5
First Executive	3	108.7	75.7	2	91.8	21.3
CNA Financial	4	105.3	21.8	763	8.4	6.7
Apple Computer	5	98.3	92.0	1	122.3	184.9
Global Marine	6	86.5	–13.3	80	27.5	34.6
Beverly Enterprises	7	74.6	34.0	18	43.5	93.3
M Lowenstein	8	72.9	40.7	976	1.8	–5.9
NIKE	9	71.6	84.5	3	71.9	85.9
Valero Energy	10	67.6	–27.4	423	14.4	–23.7
Student Loan Mktg	11	66.9	105.4	7	64.6	41.0
Subaru of America	12	65.3	68.1	42	33.0	18.7
Fin Corp of America	13	61.2	303.3	9	58.3	195.5
ROLM	14	57.9	4.1	5	65.9	74.7
Federal Express	15	51.4	51.9	13	50.8	80.8
Wang Laboratories	16	50.3	80.6	12	51.4	92.8
Caesars World	17	50.3	P–D	57	29.8	4.0
Comdisco	18	49.9	148.4	38	33.5	57.0
Metromedia	19	48.5	–38.3	648	10.6	14.2
Humana	20	47.1	66.1	37	33.9	33.2
Standard Oil Ohio	21	43.3	–12.2	82	27.5	–6.3
Fuqua Industries	22	42.0	457.6	370	15.6	–28.5
Bergen Brunswig	23	40.6	35.6	211	19.8	65.2
Pulte Home	24	39.4	208.5	39	33.3	95.1
Thriftimart	25	38.3	–24.9	822	7.3	0.5
Citizens & Sthrn Ga	26	36.9	25.9	454	13.8	17.8
Wal-Mart Stores	27	35.6	83.3	29	37.3	69.3
State Street Boston	28	34.9	9.0	242	19.0	13.7
Tandy	29	34.3	65.2	230	19.2	49.2
Superior Oil	30	33.2	–32.4	71	28.5	–0.8
Dynalectron	31	32.7	–19.5	405	14.9	10.5
Toys "R" Us	32	32.6	41.1	76	27.9	40.1
First Boston	33	32.2	58.7	17	44.0	54.9
Bruno's	34	31.9	60.5	274	18.3	28.8
Whittaker	35	31.4	–44.8	421	14.6	1.8
Business Men's Assur	36	30.9	29.7	895	5.4	13.2
Waste Management	37	30.7	31.1	61	29.3	34.0
Natl Medical Entrpes	38	30.5	54.0	14	48.9	108.7
Trust Co of Georgia	39	30.4	40.2	201	20.0	21.6
E F Hutton Group	40	30.3	60.4	35	34.3	52.1
Big Bear	41	30.2	63.4	527	12.6	19.9
Texas Oil & Gas	42	30.2	52.4	79	27.7	18.1
General Instrument	43	30.1	–21.3	467	13.6	–2.2
Phillips-Van Heusen	44	30.0	76.1	848	6.3	7.2
James River Corp Va	45	30.0	108.7	10	56.2	245.9
G Heileman Brewing	46	29.4	37.3	62	29.2	36.4
Phibro-Salomon	47	29.3	20.0	49	31.3	16.6
Cabot	48	29.3	–46.2	133	23.3	1.3
Food Lion	49	28.9	39.0	45	32.1	53.9
Limited	50	28.9	92.4	46	31.8	108.6
ConAgra	51	28.7	27.8	190	20.3	88.1
Amer Medical Intl	52	28.6	55.7	73	28.4	54.3
Fairchild Industries	53	28.4	–57.9	117	24.3	–16.7
Schlumberger	54	27.9	–6.2	147	22.6	–0.3
Mitchell Energy & Dev	55	27.8	–14.2	33	35.4	7.4
SmithKline Beckman	56	27.7	12.1	109	24.9	39.0
MEI	57	27.5	41.3	77	27.8	35.9
USAir Group	58	26.9	–23.6	219	19.5	22.5
Morton Thiokol	59	26.9	–6.0	541	12.4	107.8
Marriott	60	26.6	27.7	258	18.6	38.0
Bally Manufacturing	61	26.2	–63.2	44	32.2	21.0
Charter	62	26.1	66.0	85	27.2	17.5
Mission Insurance	63	26.1	–34.1	138	23.0	9.9
Hospital Corp of Am	64	26.1%	54.0%	34	34.7%	52.1%
Savannah Foods	65	26.0	47.6	883	5.7	2.5
Merrill Lynch	66	25.7	62.3	63	29.2	45.3
Brown-Forman Dist	67	25.6	34.0	404	15.0	15.1
General Dynamics	68	25.5	80.2	340	16.3	34.8
Cullum Companies	69	25.3	6.6	483	13.4	17.6
Berkshire Hathaway	70	25.0	55.0	492	13.2	5.2
EG&G	71	25.0	26.4	202	20.0	21.9
Resorts Intl	72	24.9	5.6	43	32.8	23.4
ServiceMaster Inds	73	24.8	37.0	156	22.2	32.7
VF	74	24.8	86.2	571	12.0	40.9
M/A-Com	75	24.6	–17.6	16	46.0	34.2
General Cinema	76	24.6	158.7	433	14.2	11.6
Teledyne	77	24.5	–27.7	788	7.9	–4.9
Natl Convenience Stores	78	24.4	31.3	217	19.6	27.0
Wendy's International	79	24.3	25.7	20	42.0	39.7
Walgreen	80	24.1	48.4	696	9.8	33.3
Allegheny Beverage	81	23.9	38.1	80	27.5	51.7
Murphy Oil	82	23.9	–5.5	318	16.9	6.4
Boeing	83	23.8	–23.7	295	17.8	15.7
Control Data	84	23.7	–1.9	481	13.4	10.3
Midlantic Banks	85	23.5	20.2	151	22.5	19.3
Peoples Drug Stores	86	23.5	40.6	438	14.1	25.9
Zapata	87	23.4	–31.5	896	5.4	–18.8
SCOA Industries	88	23.3	11.4	585	11.7	14.2
American Stores	89	23.2	59.2	11	52.8	9.2
Zayre	90	23.2	65.0	693	9.8	30.0
Tesoro Petroleum	91	23.1	–38.6	121	24.0	–5.8
SEDCO	92	23.0	46.9	754	8.6	31.7
Browning-Ferris Inds	93	23.0	39.4	361	15.9	24.0
Raychem	94	22.9	–23.2	129	23.5	16.2
Storage Technology	95	22.8	–95.7	26	39.6	8.3
Allied Bancshares	96	22.8	34.8	25	40.2	43.0
Ryder System	97	22.8	20.1	237	19.0	18.4
Cross & Trecker	98	22.7	–90.2	522	12.7	–60.7
Anixter Bros	99	22.4	–38.6	185	20.7	19.3
Penn Central	100	22.4	–28.4	21	41.7	–8.9
General Re	101	22.3	15.6	355	15.9	18.8
Hewlett-Packard	102	22.2	29.0	118	24.3	29.3
Rohm & Haas	103	22.0	46.9	680	10.0	0.7
R H Macy	104	21.9	58.4	519	12.8	34.9
Rose's Stores	105	21.9	117.7	829	7.0	29.0
Esmark	106	21.8	–14.7	1000	–5.5	6.9
Turner Construction	107	21.8	28.1	188	20.5	–7.5
Loews	108	21.8	38.9	578	11.9	11.3
Anheuser-Busch Cos	109	21.7	31.3	252	18.7	47.1
American Intl Group	110	21.7	24.2	264	18.5	–10.3
Hilton Hotels	111	21.7	4.8	744	8.7	7.7
PHH Group	112	21.7	34.9	52	30.5	51.6
Rite Aid	113	21.6	34.8	291	17.9	26.4
Tyco Laboratories	114	21.6	–24.5	50	31.2	39.6
Seagram	115	21.6	–16.0	931	4.1	–4.0
Supermarkets General	116	21.6	21.4	603	11.3	14.5
Big V Supermarkets	117	21.5	6.4	301	17.5	14.5
Freeport-McMoran	118	21.5	–32.8	233	19.1	3.7
Dean Foods	119	21.2	29.7	348	16.1	15.6
Digital Equipment	119	21.2	–35.1	54	30.2	40.3
Barnett Banks Fla	121	21.1	39.9	113	24.6	52.3
Capital Cities Commun	122	21.1	28.6	244	19.0	28.3
Shawmut	123	21.1	–6.8	207	19.9	22.2
Western Co No Amer	124	20.8	P-D	47	31.7	–12.0
Worthington Inds	125	20.7	0.0	108	25.0	20.5
Pioneer	126	20.7	–10.3	223	19.3	–4.9

*For some companies (as noted in individual Yardsticks tables) the growth rate is for less than five years. For comparison, the five-year average annual increase in prices was 7.6%, as measured by the Department of Commerce's *Implicit Price Deflator for Gross National Product,* which measures inflation in all sectors of the economy.
†Latest 12-months. P-D: profit to deficit.

Who's where in growth

Company	Earnings per share			Sales		
	rank	5-year average*	83† vs 1980-82	rank	5-year average*	83† vs 1980-82
First Atlanta	127	20.7%	35.3%	394	15.1%	26.2%
Sysco	127	20.7	39.3	255	18.6	41.3
Republic New York	129	20.7	3.8	22	41.6	–0.6
Munford	130	20.6	28.7	947	3.5	13.3
Perini	131	20.5	7.0	158	22.1	1.0
Dorchester Gas	132	20.5	–34.8	4	67.2	67.0
Super Valu Stores	133	20.4	17.1	376	15.5	19.3
Burlington Northern	134	20.2	36.5	331	16.5	1.9
Bankers Trust NY	135	20.1	1.8	222	19.4	–9.8
Payless Cashways	136	20.1	70.8	78	27.8	62.6
Atlantic Richfield	137	20.1	–7.9	187	20.6	–0.5
Brunswick	138	19.9	–45.4	925	4.5	4.9
Fleet Financial	138	19.9	24.6	303	17.5	10.5
Hanover Insurance	140	19.9	6.0	502	13.0	11.9
Cox Communications	141	19.8	16.0	150	22.5	43.7
Sun Banks	141	19.8	14.7	123	23.9	37.1
Sherwin-Williams	143	19.8	38.7	669	10.2	25.0
Abbott Laboratories	144	19.7	32.6	352	16.0	22.3
Nucor	145	19.6	–29.2	199	20.1	–0.9
Texas Commerce Bshs	146	19.5	23.6	51	30.8	12.0
Parsons	147	19.5	25.1	852	6.2	–7.8
Dover	148	19.4	–13.2	269	18.4	3.0
H H Robertson	149	19.4	–32.4	640	10.7	–10.3
First Union	150	19.3	40.9	157	22.2	18.2
Centex	151	19.3	8.5	415	14.7	6.6
Culbro	152	19.1	–52.2	941	3.7	36.3
Brown Group	153	19.1	23.3	717	9.4	11.6
Revco D S	154	19.0	52.8	248	18.9	40.2
Monfort of Colorado	155	19.0	4,443.1	204	19.9	54.9
United Energy Resources	156	18.9	–72.0	66	29.1	–15.0
Baxter Travenol Labs	157	18.9	36.2	341	16.2	19.6
First Wisconsin	158	18.8	9.6	484	13.4	–6.1
Jerrico	159	18.7	6.0	161	22.0	23.8
Fidelcor	160	18.7	97.3	684	9.9	18.8
New York Times	161	18.5	33.2	477	13.4	24.8
Kelly Services	162	18.5	2.0	209	19.9	9.9
Giant Food	163	18.5	57.3	521	12.7	14.0
Thrifty Corp	164	18.5	31.9	622	11.0	13.9
McDonald's	165	18.4	27.4	355	15.9	18.6
Deluxe Check Printers	166	18.3	36.7	392	15.1	22.4
Dun & Bradstreet	167	18.3	31.7	343	16.2	18.2
Perkin-Elmer	168	18.2	–33.1	181	20.8	–2.1
Cole National	169	18.2	28.3	58	29.6	49.6
Auto Data Processing	170	18.2	28.2	135	23.2	39.6
Philip Morris	171	18.2	26.9	255	18.6	18.3
Meredith	172	18.1	49.2	453	13.8	9.9
Getty Oil	173	18.1	–45.6	92	26.1	–0.5
American Brands	174	18.0	0.1	748	8.6	4.5
Dow Jones	175	17.9	41.4	287	18.0	31.0
Marine Midland Banks	176	17.8	20.5	284	18.2	–5.2
Raytheon	177	17.8	–4.4	394	15.1	7.0
Foster Wheeler	178	17.7	–15.9	813	7.4	–4.5
Transco Energy	179	17.6	–10.0	36	34.2	17.1
Harris Corp	180	17.6	–37.3	274	18.3	–6.1
Datapoint	181	17.6	–56.5	30	36.8	34.3
Trinity Industries	182	17.5	–61.3	259	18.6	–35.3
Electronic Data Systems	183	17.5	57.9	106	25.1	50.5
United Virginia Bshs	184	17.5	29.0	373	15.6	20.6
Bank of Boston	185	17.5	24.7	134	23.3	–3.4
McGraw-Hill	186	17.4	23.9	557	12.3	14.9
United States Shoe	187	17.4	22.0	568	12.1	23.9
AMP	188	17.3	12.0	343	16.2	14.8
G D Searle	189	17.3	42.0	875	5.9	–6.9
Pay Less Drug NW	190	17.3%	21.7%	147	22.6%	6.4%
Sun Chemical	191	17.2	–24.4	462	13.6	21.1
Newmont Mining	192	17.2	–44.2	837	6.8	–15.9
Springs Industries	193	17.1	2.6	831	7.0	0.6
Combustion Eng	194	17.0	–16.9	575	11.9	–11.0
U S Home	195	16.9	25.7	314	17.0	12.1
Albertson's	196	16.9	23.0	316	16.9	18.5
CBT	196	16.9	1.3	246	18.9	28.8
Pneumo	198	16.9	76.3	386	15.3	10.6
Nordstrom	199	16.9	42.0	207	19.9	42.0
Oxford Industries	200	16.8	144.7	630	10.9	54.2
Dillard Dept Stores	201	16.8	81.1	216	19.6	33.8
H J Heinz	201	16.8	28.3	515	12.8	11.1
Baker International	203	16.8	P-D	87	26.8	–11.4
Ceco	203	16.8	–8.5	728	9.2	1.8
Old Republic Intl	203	16.8	21.4	412	14.8	–8.2
Cincinnati Milacron	206	16.7	P-D	749	8.6	–34.7
Jewel Cos	207	16.7	0.4	688	9.9	13.0
Bank of New England	208	16.7	7.3	53	30.4	13.3
NCNB	209	16.7	30.8	143	22.8	27.3
Waldbaum	210	16.5	30.1	529	12.5	12.5
Mercantile Texas	211	16.5	17.7	24	40.5	28.5
National Svc Inds	212	16.5	16.6	658	10.5	10.9
Morrison-Knudsen	213	16.4	1.8	296	17.7	7.8
Melville	214	16.3	14.4	286	18.0	31.0
Ruddick	214	16.3	23.0	612	11.2	7.5
Blount	216	16.3	59.0	472	13.5	6.1
Security Pacific	217	16.2	21.0	145	22.7	9.1
Southern Pacific	218	16.2	250.9	745	8.7	–11.6
Southeast Banking	219	16.2	0.1	182	20.8	10.9
SONAT	220	16.1	24.1	112	24.7	17.4
Hughes Tool	221	16.0	P-D	91	26.2	–20.8
Lear Siegler	222	16.0	–9.3	557	12.3	0.1
Fort Howard Paper	223	15.7	23.5	363	15.8	35.3
Rockwell Intl	224	15.6	26.4	842	6.4	13.8
Weis Markets	225	15.6	25.7	531	12.5	14.5
Hartmarx	226	15.6	30.0	789	7.8	18.2
A C Nielsen	227	15.6	35.5	261	18.5	19.0
Reading & Bates	227	15.6	–57.6	227	19.3	–6.8
Honeywell	229	15.5	–16.6	550	12.4	8.4
Shaklee	229	15.5	69.7	193	20.2	20.8
Pioneer Hi-Bred Intl	231	15.5	–31.9	363	15.8	5.2
Westinghouse Electric	232	15.5	–6.6	789	7.8	3.7
Amer Hospital Supply	233	15.4	24.6	397	15.1	19.3
Gannett	234	15.3	12.1	124	23.8	21.0
Chase Manhattan	235	15.3	9.3	215	19.6	–10.7
Amerada Hess	236	15.2	–37.9	401	15.0	–4.3
American Greetings	236	15.2	29.4	358	15.9	26.7
Houston Natural Gas	238	15.2	–19.9	235	19.1	5.2
Wyman-Gordon	238	15.2	–15.3	550	12.4	–27.2
Figgie Intl Holdings	240	15.2	–5.1	856	6.2	–10.0
ASARCO	241	15.1	–62.8	836	6.8	–7.0
Shell Oil	242	15.1	–5.9	368	15.7	–3.9
PNC Financial	243	15.0	22.6	114	24.5	5.6
Farmers Group	244	15.0	14.1	402	15.0	36.0
Southland	245	14.9	29.4	178	21.0	35.5
Standard Oil Calif	246	14.9	–21.4	544	12.4	–28.7
Consolidated Foods	247	14.9	24.2	390	15.2	17.5
Zurn Industries	248	14.9	–16.4	823	7.2	–10.5
Entex	249	14.8	25.4	145	22.7	29.6
Computer Sciences	250	14.8	–23.8	205	19.9	12.6
Avery International	251	14.8	13.1	560	12.2	15.6
Chubb	251	14.8	0.2	725	9.3	20.5

*For some companies (as noted in individual Yardsticks tables) the growth rate is for less than five years. For comparison, the five-year average annual increase in prices was 7.6%, as measured by the Department of Commerce's *Implicit Price Deflator for Gross National Product,* which measures inflation in all sectors of the economy.
†Latest 12-months. P-D: profit to deficit.

Who's where in growth

Company	Earnings per share			Sales		
	rank	5-year average*	83† vs 1980-82	rank	5-year average*	83† vs 1980-82
Mobil	251	14.8%	–36.9%	339	16.3%	–9.5%
Levi Strauss	254	14.8	7.2	379	15.5	–1.5
Service Merchandise	255	14.7	33.6	69	28.9	31.4
Tektronix	256	14.7	–40.0	184	20.8	11.3
Dibrell Brothers	257	14.7	90.8	733	9.0	–0.9
Cluett, Peabody	258	14.6	29.2	830	7.0	3.7
American Express	259	14.6	22.5	278	18.3	36.9
Unocal	260	14.6	–9.9	540	12.4	–0.9
Universal Leaf	261	14.6	18.5	799	7.6	–7.1
Big Three Industries	262	14.5	–46.0	226	19.3	–11.3
Washington Post	263	14.5	55.0	462	13.6	15.0
Hannaford Bros	264	14.4	26.6	615	11.1	17.3
Archer Daniels Midland	265	14.4	–32.4	465	13.6	33.3
Parker Drilling	266	14.4	P-D	96	25.8	–33.8
Cameron Iron Works	267	14.3	P-D	325	16.6	–9.2
Di Giorgio	267	14.3	–26.4	873	5.9	9.5
Engelhard	269	14.2	4.5	224	19.3	–9.5
R R Donnelley & Sons	270	14.2	36.1	366	15.8	18.3
Intel	270	14.2	25.2	65	29.1	21.4
Alleghany	272	14.2	–1.6	23	40.9	6.0
Valley National	273	14.1	–10.8	174	21.1	11.0
Life Investors	274	14.0	41.2	99	25.6	42.2
General Mills	275	14.0	33.2	529	12.5	16.1
Johnson & Johnson	275	14.0	6.4	413	14.8	10.3
Purolator	277	14.0	30.5	426	14.4	18.7
Knight-Ridder News	278	14.0	14.1	580	11.9	16.9
Stop & Shop Cos	278	14.0	66.9	768	8.1	15.7
American General	280	14.0	25.3	519	12.8	49.4
Snap-On Tools	280	14.0	–1.8	460	13.7	3.4
Kroger	282	13.9	–17.5	500	13.0	27.7
First Interstate Bancp	283	13.8	–0.8	212	19.8	5.1
Northwest Industries	284	13.8	–93.4	715	9.4	–33.9
Piedmont Aviation	285	13.8	–56.1	107	25.1	40.0
Hershey Foods	286	13.7	12.0	273	18.3	14.4
Norfolk Southern	287	13.6	–34.1	764	8.3	–8.4
Kemper	288	13.5	–22.5	179	20.9	12.2
Ohio Casualty	288	13.5	–7.7	561	12.2	6.0
Standard Oil Indiana	290	13.5	–3.3	326	16.6	–0.8
Sundstrand	290	13.5	–45.0	698	9.7	–7.2
Union Pacific	292	13.5	–17.4	166	21.6	39.2
Mercantile Stores	293	13.5	32.5	564	12.1	19.3
Bangor Punta	294	13.5	P-D	586	11.7	–24.7
Transamerica	294	13.5	0.3	737	8.9	8.5
Masco	296	13.5	11.2	360	15.9	20.9
Amer Broadcasting	297	13.4	–2.0	541	12.4	15.3
Exxon	298	13.4	–5.6	467	13.6	–12.0
Banc One	299	13.4	19.6	89	26.3	56.0
Bristol-Myers	300	13.4	25.3	626	10.9	12.7
Chesebrough-Pond's	300	13.4	–1.3	432	14.3	8.6
IU International	302	13.3	–48.8	975	1.8	–5.3
Gulf United	303	13.3	9.4	122	24.0	30.3
Ball Corp	304	13.3	22.4	445	14.0	11.3
Emerson Electric	305	13.2	7.4	382	15.4	4.3
Gelco	306	13.1	P-D	31	36.8	14.3
Flickinger	307	13.0	31.3	590	11.7	23.2
CFS Continental	308	13.0	33.5	544	12.4	26.7
First Natl Supermkts	309	13.0	31.3	179	20.9	1.6
Pillsbury	309	13.0	17.0	281	18.3	17.6
Consolidated Papers	311	12.9	–5.0	596	11.7	4.1
First City Bancorp	311	12.9	–34.6	56	29.9	9.8
Flowers Industries	313	12.9	32.0	387	15.3	36.8
Paine Webber	314	12.9	488.3	41	33.2	52.9
Irving Bank	315	12.8	–3.5	189	20.4	–12.2

Company	Earnings per share			Sales		
	rank	5-year average*	83† vs 1980-82	rank	5-year average*	83† vs 1980-82
Occidental Petroleum	315	12.8%	P-D	175	21.1%	30.2%
Genuine Parts	317	12.8	5.7%	417	14.7	22.6
Alcan Aluminium	318	12.8	–94.5	606	11.3	–1.0
Kimberly-Clark	319	12.7	–12.3	610	11.2	13.1
Std Comml Tobacco	320	12.7	–15.6	144	22.7	–5.9
Martin Marietta	321	12.7	13.8	293	17.8	16.9
Motorola	321	12.7	–1.6	374	15.5	19.0
Nabisco Brands	321	12.7	13.7	808	7.5	0.8
Fischbach	324	12.7	22.2	572	12.0	24.0
W W Grainger	325	12.6	–4.0	475	13.5	3.8
E-Systems	326	12.6	102.4	382	15.4	37.2
Times Mirror	327	12.6	19.3	390	5.2	15.7
Marsh & McLennan Cos	328	12.6	5.5	307	17.4	16.2
Borg-Warner	329	12.5	8.0	738	8.9	17.9
Holiday Inns	330	12.5	10.9	796	7.6	–3.1
General Signal	331	12.5	–27.1	320	16.8	–6.4
American Home Products	332	12.5	21.1	652	10.6	15.3
Safeco	333	12.4	15.9	590	11.7	16.4
Air Prods & Chems	334	12.4	–12.5	513	12.8	7.5
American Natl Ins	334	12.4	38.1	824	7.2	12.0
Fluor	334	12.4	–48.8	94	26.0	–0.1
Pennzoil	337	12.4	–35.1	403	15.0	–9.5
Texaco	337	12.4	–32.0	532	12.5	–20.5
RepublicBank	339	12.4	10.7	70	28.6	4.8
Illinois Tool Works	340	12.3	10.0	648	10.6	8.8
Pacific Resources	341	12.3	–51.4	98	25.7	35.4
Sonoco Products	342	12.3	–5.9	379	15.5	23.4
Wachovia	343	12.2	46.9	235	19.1	12.2
First Natl State Bcp	344	12.2	22.8	225	19.3	18.2
Seaway Food Town	344	12.2	–24.9	538	12.4	14.2
Pitney Bowes	346	12.2	–1.5	221	19.4	13.3
Harvey Hubbell	347	12.2	–8.2	408	14.9	–5.4
Quaker Oats	347	12.2	–36.5	612	11.2	6.9
Mellon National	349	12.2	14.7	170	21.4	15.0
Sun Company	350	12.2	–28.8	240	19.0	1.6
Upjohn	351	12.1	–6.0	599	11.6	6.2
Cooper Industries	352	12.0	–77.5	64	29.1	–21.3
General Electric	352	12.0	18.5	684	9.9	2.3
Gordon Jewelry	354	12.0	–16.9	330	16.5	0.0
Johnson Controls	355	11.9	29.4	101	25.4	18.7
Magic Chef	356	11.9	259.8	193	20.2	22.6
Roadway Services	356	11.9	25.1	632	10.8	4.5
Nalco Chemical	358	11.9	–11.5	643	10.7	0.9
Travelers	359	11.8	–2.5	661	10.4	18.9
Kidde	360	11.8	–17.0	496	13.1	–12.1
Levitz Furniture	360	11.8	62.9	899	5.3	10.8
Panhandle Eastern	360	11.8	–37.3	103	25.3	8.9
Procter & Gamble	360	11.8	26.1	608	11.3	10.0
Pacific Lighting	364	11.8	18.8	136	23.1	25.3
Whirlpool	365	11.7	37.8	856	6.2	8.4
Chemical New York	366	11.7	5.9	212	19.8	–5.1
Fleming Cos	367	11.7	24.7	465	13.6	38.3
Jack Eckerd	368	11.7	–5.1	245	18.9	29.6
Ashland Oil	369	11.6	–53.3	469	13.5	–9.9
Marsh Supermarkets	369	11.6	–31.3	620	11.0	12.6
Southwest Bancshares	371	11.6	–22.7	72	28.5	23.3
Texas American Bshs	372	11.5	–4.6	86	27.1	12.7
City Federal S & L	373	11.5	444.3	27	38.8	72.7
Minn Mining & Mfg	373	11.5	–1.3	600	11.6	6.9
Kellogg	375	11.5	18.3	677	10.1	3.4
Maryland National	376	11.4	1.0	288	18.0	7.5
Corestates Financial	377	11.3	45.3	424	14.4	11.3
Carnation	378	11.3	13.8	780	7.9	1.6

*For some companies (as noted in individual Yardsticks tables) the growth rate is for less than five years. For comparison, the five-year average annual increase in prices was 7.6%, as measured by the Department of Commerce's *Implicit Price Deflator for Gross National Product*, which measures inflation in all sectors of the economy.
†Latest 12-months. P-D: profit to deficit.

Who's where in growth

Company	Earnings per share			Sales		
	rank	5-year average*	83† vs 1980-82	rank	5-year average*	83† vs 1980-82
ENSERCH	378	11.3%	–43.1%	130	23.4%	9.5%
Avnet	380	11.3	–20.2	510	12.9	1.1
Phillips Petroleum	380	11.3	–27.6	231	19.1	1.8
CPC International	382	11.2	–3.6	803	7.5	–4.5
Federal-Mogul	382	11.2	5.2	652	10.6	–6.6
Longs Drug Stores	384	11.2	19.6	384	15.3	17.9
J P Morgan	385	11.2	18.7	139	22.9	–5.4
Capital Holding	386	11.0	19.6	272	18.4	58.6
Eli Lilly	387	11.0	18.4	449	13.9	8.5
McCormick	388	11.0	25.0	389	15.3	14.7
CBI Industries	389	10.9	–29.9	639	10.8	16.9
Wometco Enterprises	389	10.9	14.7	350	16.0	19.3
R J Reynolds Inds	391	10.9	–3.3	353	16.0	27.0
Saga	391	10.9	79.8	427	14.4	23.4
Tyson Foods	393	10.8	198.2	271	18.4	21.8
Arkla	394	10.8	–8.2	141	22.8	13.6
PPG Industries	395	10.8	3.6	771	8.1	8.8
Dexter	396	10.8	7.8	312	17.2	2.7
Vulcan Materials	397	10.8	–34.5	698	9.7	0.7
Richardson-Vicks	398	10.7	–32.4	526	12.6	10.4
Consol Freightways	399	10.7	–17.9	779	8.0	–2.5
Halliburton	400	10.6	–40.8	584	11.8	–24.3
National Can	401	10.6	–49.2	704	9.7	3.4
Brooklyn Union Gas	402	10.5	10.6	281	18.3	26.7
St Paul Cos	403	10.5	1.3	632	10.8	14.2
NCR	404	10.4	13.2	783	7.9	6.6
Curtice-Burns	405	10.4	43.2	279	18.3	23.5
Winn-Dixie Stores	405	10.4	19.0	568	12.1	15.8
McDonnell Douglas	407	10.4	41.5	436	14.2	15.1
Intl Flavors & Frag	408	10.4	3.0	702	9.7	2.1
Mercantile Bancorp	408	10.4	–3.9	237	19.0	–2.8
George A Hormel	410	10.4	–16.9	896	5.4	1.2
Scovill	411	10.3	57.9	898	5.4	–12.8
Ex-Cell-O	412	10.3	–1.2	346	16.2	–10.7
Crown Central Petroleum	413	10.3	–95.4	155	22.2	10.3
American Standard	414	10.2	–49.0	868	6.0	–11.5
Pfizer	414	10.2	45.2	610	11.2	12.1
A H Robins	414	10.2	49.4	660	10.4	20.6
North American Coal	417	10.2	154.6	559	12.2	–7.1
Am Natural Resources	418	10.2	20.6	200	20.1	14.9
Ametek	419	10.2	21.6	697	9.8	0.1
CSX	420	10.1	–59.1	710	9.6	–0.4
Trane	420	10.1	–19.3	536	12.5	31.6
U S Bancorp	420	10.1	–15.8	285	18.1	2.9
Alco Standard	423	10.1	–4.3	336	16.4	9.9
Fremont General	424	10.1	P-D	59	29.6	42.2
United States Gypsum	425	10.1	–6.4	828	7.0	6.1
First Security	426	10.0	14.4	294	17.8	10.5
Merck	427	10.0	9.4	582	11.8	9.4
Heck's	428	10.0	–46.6	319	16.8	–2.4
IBM	428	10.0	33.1	513	12.8	28.4
Malone & Hyde	428	10.0	45.4	397	15.1	29.0
USF&G	428	10.0	–5.8	667	10.3	1.6
Wells Fargo	432	10.0	6.2	183	20.8	–1.8
Citicorp	433	9.9	40.7	140	22.9	0.2
Interpublic Group	434	9.9	14.1	324	16.7	25.4
Denny's	435	9.9	42.8	280	18.3	31.6
Kaneb Services	436	9.9	–21.0	84	27.3	1.9
Roper Corp	436	9.9	160.7	937	3.9	18.1
Coca-Cola	438	9.9	8.6	515	12.8	12.4
First Bank System	439	9.8	19.8	165	21.6	11.0
Texas Eastern	439	9.8	–32.5	128	23.6	14.5
Greyhound	441	9.8	–14.7	963	2.5	–37.7
Bank of New York	442	9.8%	28.4%	83	27.4%	–0.2%
New England Electric	443	9.8	34.3	654	10.6	8.6
Strawbridge & Clothier	443	9.8	43.4	675	10.1	17.9
Clorox	445	9.7	75.2	990	–2.0	24.3
Varian Associates	446	9.7	143.2	471	13.5	16.9
Holly Corp	447	9.7	–20.5	110	24.8	–2.4
Bausch & Lomb	448	9.6	17.1	773	8.0	–4.3
Chic & North Western	448	9.6	–62.6	689	9.9	–8.0
Consolidated Edison	450	9.6	30.7	678	10.1	17.3
City Investing	451	9.5	–1.7	384	15.3	3.3
Eastman Kodak	452	9.4	–27.2	547	12.4	8.7
NL Industries	452	9.4	P-D	886	5.7	–35.3
Frederick & Herrud	454	9.4	139.5	556	12.3	32.3
Hercules	455	9.4	7.7	734	9.0	0.1
Warner Communications	455	9.4	P-D	103	25.3	12.9
Tidewater	457	9.4	–45.5	228	19.2	–12.2
Torchmark	458	9.3	25.4	266	18.5	91.0
North Amer Philips	459	9.3	1.2	536	12.5	19.5
Milton Bradley	460	9.3	–83.6	460	13.7	–9.1
Dayton-Hudson	461	9.3	26.0	231	19.1	33.4
Santa Fe Industries	462	9.2	–19.9	504	13.0	–3.0
General Foods	463	9.1	14.8	681	10.0	9.5
Aetna Life & Casualty	464	9.1	–24.8	490	13.2	6.8
Consol Natural Gas	464	9.1	25.3	290	17.9	17.3
Stanley Works	466	9.1	–10.1	667	10.3	–1.6
West Point-Pepperell	466	9.1	16.3	658	10.5	1.2
Provident Life & Acc	468	9.1	10.8	922	4.6	6.1
Southern Union	469	9.1	–26.0	247	18.9	3.5
Research-Cottrell	470	8.9	–52.2	534	12.5	–4.0
United Technologies	471	8.9	5.0	175	21.1	8.6
Commercial Metals	472	8.8	–36.6	420	14.6	–30.0
Gerber Products	473	8.8	18.5	646	10.6	8.1
Data General	474	8.8	–46.8	67	29.1	13.2
Palm Beach	475	8.7	0.7	169	21.5	1.3
Petrolane	475	8.7	P-D	329	16.5	–44.1
DeSoto	477	8.7	60.5	952	3.2	–0.7
Witco Chemical	477	8.7	18.7	409	14.9	5.6
Idle Wild Foods	479	8.7	–43.9	683	10.0	7.5
Univar	479	8.7	–44.3	760	8.4	–0.3
PepsiCo	481	8.7	–8.0	309	17.3	11.6
Walt Disney	482	8.6	–25.6	588	11.7	33.0
American District	483	8.6	15.8	484	13.4	13.8
Lincoln National	483	8.6	9.7	550	12.4	24.2
Northwest Energy	485	8.6	–40.9	198	20.1	44.4
Rainier Bancorp	486	8.6	5.6	192	20.3	1.7
Gillette	487	8.5	10.6	765	8.3	–4.5
Alexander & Baldwin	488	8.5	6.6	938	3.8	7.9
Combined Internatl	488	8.5	1.6	397	15.1	33.2
Wisconsin Elec Power	490	8.5	28.4	442	14.1	18.6
Manufacturers Hanover	491	8.4	12.4	115	24.4	–2.1
Carpenter Technology	492	8.4	–52.9	669	10.2	–23.4
Borden	493	8.3	16.4	923	4.6	–4.4
Wisconsin Pwr & Lt	493	8.3	22.6	445	14.0	17.7
E I du Pont	495	8.3	–14.1	151	22.5	48.9
Lucky Stores	496	8.3	21.5	409	14.9	14.7
Kerr-McGee	497	8.2	–14.4	522	12.7	–2.6
InterNorth	498	8.1	8.0	197	20.2	26.9
Square D	499	8.1	–34.2	508	12.9	1.4
Centel	500	8.1	7.7	305	17.4	21.4
National Fuel Gas	500	8.1	–9.7	375	15.5	19.3
American Petrofina	502	8.1	–40.1	406	14.9	–7.9
Federated Dept Stores	503	8.1	19.9	671	10.2	19.8
Diversified Energies	504	8.0	17.4	210	19.8	33.0

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†Latest 12-months. P-D: profit to deficit.

Who's where in growth

Company	Earnings per share			Sales		
	rank	5-year average*	83† vs 1980-82	rank	5-year average*	83† vs 1980-82
Texas Utilities	505	8.0%	7.3%	261	18.5%	23.7%
Duke Power	506	7.9	16.3	575	11.9	21.7
Jefferson-Pilot	507	7.8	–0.8	730	9.2	4.5
May Dept Stores	507	7.8	33.1	691	9.8	18.1
Sterling Drug	507	7.8	2.8	698	9.7	6.0
Dart & Kraft	510	7.8	19.8	783	7.9	–1.7
Laclede Gas	511	7.8	5.4	350	16.0	34.6
Intl Multifoods	512	7.7	2.5	904	5.2	–2.5
Campbell Soup	513	7.7	23.6	648	10.6	21.8
Gulf Oil	514	7.7	–13.9	717	9.4	–2.1
TRW	514	7.7	–19.7	624	10.9	3.6
Wisconsin Public Svc	516	7.6	31.4	434	14.2	21.8
USLIFE	517	7.6	–0.6	637	10.8	8.5
MCA	518	7.6	22.3	635	10.8	15.9
Lubrizol	519	7.6	–30.6	578	11.9	–10.1
So New England Tel	519	7.6	20.6	555	12.3	20.4
No States Power	521	7.5	37.8	588	11.7	23.8
Iowa-Illinois G & E	522	7.5	30.8	422	14.5	17.3
A E Staley Mfg	522	7.5	–91.6	504	13.0	–4.0
Boston Edison	524	7.5	3.4	590	11.7	4.0
Rollins	524	7.5	–89.6	515	12.8	–6.0
Associated Dry Goods	526	7.5	30.6	527	12.6	34.0
Dennison Mfg	527	7.4	3.4	597	11.6	9.4
Circle K	528	7.4	186.0	274	18.3	23.5
Tecumseh Products	529	7.3	5.6	887	5.7	2.2
Mountain Fuel Supply	530	7.3	54.7	253	18.7	37.3
Continental Group	531	7.2	–16.1	811	7.4	–1.7
Central Illinois Lt	532	7.1	23.3	451	13.8	20.3
FMC	533	7.1	9.4	783	7.9	0.3
LTV	533	7.1	P-D	574	11.9	–33.9
TECO Energy	535	7.0	10.5	442	14.1	12.1
Norton	536	7.0	–61.9	593	11.7	–11.7
Moore Corp	537	7.0	–8.1	705	9.6	–2.7
Indianapolis Pwr & Lt	538	6.9	26.1	603	11.3	18.1
InterFirst	538	6.9	P-D	74	28.1	9.2
Anderson, Clayton	540	6.9	–48.7	915	4.9	–21.6
Kay	541	6.8	–54.9	495	13.2	–15.5
Parker-Hannifin	542	6.8	–44.3	331	16.5	–3.0
Handy & Harman	543	6.8	–57.3	705	9.6	–11.9
Scott Paper	543	6.8	–29.9	709	9.6	5.1
GATX	545	6.7	–59.6	834	6.9	–20.0
Time Inc	545	6.7	1.9	137	23.0	19.7
Norwest	547	6.7	–6.7	154	22.4	24.7
PACCAR	548	6.7	–54.6	834	6.9	–20.0
Stone Container	549	6.7	–88.3	637	10.8	23.1
Central & South West	550	6.6	14.5	338	16.4	25.3
Scott & Fetzer	550	6.6	21.7	511	12.8	–3.3
Gt Northern Nekoosa	552	6.6	–23.2	601	11.4	4.3
Orange & Rockland	552	6.6	10.8	535	12.5	20.7
Continental Telecom	554	6.6	5.2	304	17.5	30.9
Equifax	555	6.6	21.7	714	9.5	16.3
Gates Learjet	556	6.5	–98.7	306	17.4	–30.6
Universal Foods	556	6.5	43.3	269	18.4	20.2
Commonwealth Energy	558	6.5	57.4	607	11.3	11.5
Harcourt Brace Jovan	559	6.4	42.8	532	12.5	16.4
Becton, Dickinson	560	6.4	–50.6	455	13.8	7.6
Columbia Gas System	560	6.4	–15.3	277	18.3	11.8
Rochester Gas & Elec	560	6.4	21.5	429	14.3	23.4
Alcoa	563	6.4	P-D	708	9.6	–1.5
W R Grace	564	6.4	–52.5	698	9.7	–3.1
Public Service Indiana	564	6.4	13.0	496	13.1	17.5
BanCal Tri-State	566	6.4	116.2	508	12.9	–5.6
Petrie Stores	566	6.4	–7.9	721	9.4	8.6
Allied Stores	568	6.4%	33.7%	741	8.9%	28.4%
Natl Semiconductor	568	6.4	P-D	97	25.8	21.4
KN Energy	570	6.3	29.0	298	17.7	13.3
Super Food Services	571	6.3	114.0	370	15.6	17.1
NBD Bancorp	572	6.3	9.8	311	17.2	–7.6
Insilco	573	6.3	15.8	625	10.9	–0.9
Potomac Elec Power	573	6.3	21.0	612	11.2	17.8
Central Steel & Wire	575	6.2	0.9	924	4.5	–16.6
Crown Cork & Seal	575	6.2	–24.2	803	7.5	–5.5
Xerox	577	6.2	–31.8	563	12.1	–0.4
Emhart	578	6.2	6.3	430	14.3	–6.4
Leaseway Transportation	578	6.2	–13.0	629	10.9	20.6
Maytag	580	6.2	47.4	717	9.4	44.1
Signal Cos	580	6.2	–68.0	442	14.1	18.8
Joy Manufacturing	582	6.2	–96.2	743	8.7	–39.4
Washington Gas Light	583	6.1	22.6	359	15.9	33.5
Montana Power	584	6.1	6.7	323	16.7	3.3
McKesson	585	6.1	–8.2	774	8.0	–0.1
Fleetwood Enterprises	586	6.1	3,912.9	768	8.1	107.9
National Gypsum	586	6.1	–0.4	781	7.9	10.7
Dorsey	588	6.0	92.9	378	15.5	–8.1
United Telecom	588	6.0	–6.4	437	14.2	16.9
Washington National	590	6.0	–23.7	816	7.4	–3.0
Crocker National	591	6.0	–35.2	172	21.3	3.4
Stanadyne	591	6.0	–3.7	760	8.4	–12.5
Edison Bros Stores	593	6.0	12.1	686	9.9	8.4
Westvaco	594	5.9	–29.7	751	8.6	1.6
J C Penney	595	5.9	17.2	871	5.9	1.2
MGM Grand Hotels	596	5.9	–36.0	609	11.2	19.5
Southern Calif Edison	597	5.8	34.7	392	15.1	8.6
Florida Power & Lt	598	5.8	22.9	349	16.0	15.1
Louisiana Land	599	5.8	–25.1	124	23.8	2.5
Best Products	600	5.7	10.8	111	24.7	53.5
Union Camp	600	5.7	–20.3	713	9.5	9.5
Allegheny Power	602	5.7	15.9	381	15.5	16.4
N Y State Elec & Gas	602	5.7	3.6	486	13.3	19.3
Collins & Aikman	604	5.7	85.2	794	7.6	20.0
Ralston Purina	604	5.7	104.2	832	7.0	–2.0
Corning Glass Works	606	5.7	–7.8	813	7.4	–0.1
Kansas Power & Light	607	5.7	22.4	447	13.9	28.6
Tenneco	608	5.6	–12.6	345	16.2	6.5
Pacific Gas & Elec	609	5.6	11.6	322	16.8	11.7
Oneok	610	5.5	–42.6	240	19.0	3.6
Revlon	611	5.4	–42.2	300	17.5	3.5
Schering-Plough	612	5.4	–3.4	428	14.4	0.1
King Kullen Grocery	613	5.4	59.5	567	12.1	8.8
Baltimore Gas & Elec	614	5.4	21.7	515	12.8	16.1
Kansas City Pwr & Lt	615	5.3	29.7	449	13.9	16.2
BankAmerica	616	5.3	–33.5	220	19.5	–4.4
Briggs & Stratton	617	5.3	–40.0	615	11.1	–13.1
Niagara Mohawk Power	617	5.3	20.3	438	14.1	22.6
Robertshaw Controls	617	5.3	67.6	818	7.3	3.3
Equitable of Iowa	620	5.3	29.3	255	18.6	–0.2
AmeriTrust	621	5.2	0.3	493	13.2	–6.6
Society	622	5.1	23.1	167	21.6	2.0
American Tel & Tel	623	5.1	–14.7	586	11.7	18.0
GTE	623	5.1	23.4	691	9.8	13.8
Nash Finch	625	5.0	7.7	641	10.7	7.3
Earle M Jorgensen	626	5.0	–72.0	879	5.8	–36.2
MidCon	626	5.0	2.6	119	24.2	15.4
Bemis	628	5.0	–24.5	969	2.0	–0.2
Tyler	628	5.0	–23.7	321	16.8	23.2
Centerre Bancorp	630	4.9	–31.4	173	21.2	–8.3

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Who's where in growth

Company	Earnings per share			Sales		
	rank	5-year average*	83† vs 1980-82	rank	5-year average*	83† vs 1980-82
Lowe's Companies	631	4.9%	85.1%	595	11.7%	33.2%
International Paper	632	4.9	–39.6	893	5.5	–9.4
G C Murphy	633	4.9	69.3	883	5.7	1.3
McGraw-Edison	634	4.8	–36.5	365	15.8	–9.3
Pay'n Save	634	4.8	29.0	341	16.2	16.3
United Illuminating	636	4.7	26.9	417	14.7	4.3
Gulf States Utils	637	4.7	15.4	261	18.5	21.0
Zale	638	4.6	–40.5	890	5.6	5.2
Southwestern Pub Svc	639	4.6	29.9	299	17.6	37.5
Federal Paper Board	640	4.6	–70.8	862	6.1	8.4
Royal Crown Cos	640	4.6	18.3	754	8.6	8.0
Foxboro	642	4.5	–72.6	646	10.6	–9.4
Wm Wrigley Jr	642	4.5	25.7	730	9.2	–0.5
Geo International	644	4.5	P-D	153	22.4	–25.7
Allied Corp	645	4.4	–33.6	249	18.8	53.3
Ethyl	645	4.4	6.4	807	7.5	–1.6
Pacific Pwr & Lt	647	4.3	21.9	127	23.8	26.3
Hammermill Paper	648	4.3	–57.9	494	13.2	13.8
Carson Pirie Scott	649	4.2	28.2	480	13.4	19.2
Frontier Holdings	649	4.2	P-D	229	19.2	3.3
Interco	651	4.1	–14.3	694	9.8	2.7
MGM/UA Entertainment	652	4.0	35.3	68	28.9	68.7
Union Electric	653	4.0	30.3	628	10.9	19.9
Dresser Industries	654	4.0	–99.1	572	12.0	–17.7
Alexander & Alexander	655	4.0	P-D	168	21.5	15.1
Continental Illinois	655	4.0	–38.3	120	24.2	–19.5
Dayton Power & Light	657	3.9	12.1	481	13.4	19.6
K mart	657	3.9	61.7	504	13.0	13.3
Eastern Gas & Fuel	659	3.9	–33.7	598	11.6	4.8
CIGNA	660	3.9	–22.3	736	8.9	14.5
Delmarva Power & Lt	661	3.8	31.8	507	12.9	9.5
Smith International	661	3.8	P-D	162	22.0	–26.9
SCM	663	3.8	–66.8	845	6.3	–11.0
Comerica	664	3.8	12.7	212	19.8	13.8
California First Bnk	665	3.7	–15.9	131	23.4	2.1
Safeway Stores	666	3.7	25.6	726	9.3	11.4
Western Union	667	3.7	15.4	777	8.0	12.8
National City	668	3.7	10.5	160	22.1	9.2
Houston Industries	669	3.6	36.3	75	28.0	26.0
Quaker State Oil	670	3.6	12.3	317	16.9	0.2
H J Wilson	670	3.6	–42.0	149	22.6	23.5
Northern Trust	672	3.6	–35.1	249	18.8	–9.5
Fieldcrest Mills	673	3.5	23.3	820	7.3	3.6
Dr Pepper	674	3.5	–65.0	302	17.5	35.3
Squibb	675	3.4	21.7	894	5.4	7.9
Utah Power & Light	675	3.4	8.1	196	20.2	21.0
Northrop	677	3.4	49.2	657	10.5	50.2
Ogden	677	3.4	–32.6	907	5.2	–20.9
Avon Products	679	3.4	–29.5	564	12.1	9.6
Beatrice Foods	680	3.3	39.9	694	9.8	3.1
Echlin	680	3.3	76.5	407	14.9	40.2
Phila Electric	682	3.3	11.6	511	12.8	8.2
Harsco	683	3.3	–42.2	686	9.9	–21.1
Penn Traffic	683	3.3	32.9	459	13.7	11.6
Intl Tel & Tel	685	3.3	–17.5	870	5.9	–15.0
Cincinnati G & E	686	3.3	22.9	476	13.5	21.9
Illinois Power	687	3.2	21.7	388	15.3	28.1
IC Industries	688	3.1	–41.0	328	16.5	–8.5
Portland Genl Elec	689	3.1	–6.3	265	18.5	2.1
Amstar	690	3.1	–39.5	936	3.9	–21.4
ARA Services	691	3.1	6.0	488	13.3	7.5
Peoples Energy	691	3.1	–15.4	369	15.6	8.8
Southern Company	693	3.1	12.4	462	13.6	22.0
Blue Bell	694	3.0%	–6.9%	547	12.4%	–10.5%
Carolina Pwr & Lt	694	3.0	7.1	487	13.3	21.1
Central Ill Pub Svc	696	3.0	30.5	489	13.3	33.9
Pub Svc Elec & Gas	696	3.0	14.7	525	12.6	14.0
Amsted Industries	698	3.0	P-D	840	6.5	–38.0
Morse Shoe	698	3.0	102.0	541	12.4	13.4
Arizona Public Service	700	2.9	10.2	337	16.4	18.7
Goodyear	700	2.9	–27.2	809	7.4	6.0
MAPCO	702	2.8	–46.5	40	33.2	4.0
Florida Progress	703	2.8	24.8	425	14.4	14.4
Northeast Utilities	704	2.8	53.4	411	14.9	16.0
Coastal Corp	705	2.7	97.6	100	25.4	4.7
UGI	705	2.7	–90.7	132	23.4	13.5
Detroit Edison	707	2.7	16.3	707	9.6	12.4
San Diego Gas & Elec	708	2.6	35.4	177	21.0	27.3
Colgate-Palmolive	709	2.5	2.5	800	7.5	–4.8
Emery Air Freight	710	2.4	6.5	455	13.8	8.8
Federal Co	711	2.3	53.6	473	13.5	5.1
Hawaiian Electric	712	2.3	–9.0	218	19.5	4.9
Consumers Power	713	2.2	–3.2	643	10.7	5.8
Atlantic City Elec	714	2.2	32.6	458	13.7	17.0
Hyster	715	2.2	–99.4	912	5.0	–29.6
Cone Mills	716	2.1	–48.5	933	4.0	0.2
Wetterau	717	2.0	38.5	347	16.1	31.4
Sperry	718	2.0	–38.4	757	8.4	–4.2
Cleveland Elec Illum	719	1.9	21.3	593	11.7	20.2
Commonwealth Edison	720	1.9	35.0	452	13.8	20.0
Allegheny Intl	721	1.8	P-D	440	14.1	25.9
American Cyanamid	722	1.8	–8.9	717	9.4	–1.7
Sears, Roebuck	722	1.8	66.5	833	6.9	23.6
So Carolina E & G	722	1.8	5.3	394	15.1	27.2
Long Island Lighting	725	1.8	8.0	419	14.7	13.4
Economics Laboratory	726	1.7	P-D	502	13.0	9.0
Middle South Utils	727	1.7	4.0	335	16.4	8.7
Owens-Illinois	728	1.6	–66.4	803	7.5	–7.9
Riegel Textile	728	1.6	–44.1	816	7.4	–2.4
NICOR	730	1.6	–78.1	315	17.0	8.2
Hoover	731	1.4	324.9	926	4.4	–10.9
Armstrong World Inds	732	1.4	39.9	877	5.8	5.0
Godfrey	733	1.4	–34.9	618	11.1	8.1
Oklahoma Gas & Elec	733	1.4	24.3	334	16.5	16.8
Ferro	735	1.3	–17.5	661	10.4	–10.9
Penn Power & Light	736	1.2	1.9	663	10.4	6.8
American Family	737	1.2	40.1	105	25.3	30.7
Bell & Howell	738	1.2	208.4	864	6.0	1.0
CBS	739	1.0	–11.2	630	10.9	6.4
Central Soya	739	1.0	1.4	916	4.9	–17.1
Intl Minerals & Chem	741	1.0	–41.1	843	6.4	–17.8
Atlanta Gas Light	742	0.9	24.7	158	22.1	33.9
Moore McCormack Res	742	0.9	–83.2	547	12.4	–34.3
Manufacturers National	744	0.9	76.9	283	18.2	–4.6
Ohio Edison	744	0.9	12.7	499	13.1	18.3
Household Intl	746	0.9	38.2	440	14.1	11.1
Adolph Coors	747	0.9	61.7	673	10.2	16.7
Union Carbide	748	0.9	–61.1	775	8.0	–8.3
Kentucky Utilities	749	0.8	31.4	553	12.3	15.3
Harris Bankcorp	750	0.7	4.8	251	18.7	–9.2
Public Service Colo	751	0.7	–4.5	205	19.9	22.5
Louisville Gas & Elec	752	0.6	6.1	354	16.0	24.5
Golden West Finl	753	0.6	D-P	48	31.7	45.2
Hoover Universal	753	0.6	52.1	796	7.6	30.0
First Chicago	755	0.5	47.3	259	18.6	–7.6
Continental Corp	756	0.4	–77.3	809	7.4	8.8

*For some companies (as noted in individual Yardsticks tables) the growth rate is for less than five years. For comparison, the five-year average annual increase in prices was 7.6%, as measured by the Department of Commerce's *Implicit Price Deflator for Gross National Product,* which measures inflation in all sectors of the economy.

†Latest 12-months. P-D: profit to deficit. D-P: deficit to profit.

Who's where in growth

Company	Earnings per share			Sales		
	rank	5-year average*	83† vs 1980-82	rank	5-year average*	83† vs 1980-82
Dominion Resources	757	0.3%	7.2%	455	13.8%	15.5%
Lone Star Industries	758	0.3	P-D	967	2.2	1.4
Burlington Inds	759	0.2	5.1	901	5.3	–0.8
Outboard Marine	759	0.2	79.7	892	5.6	4.6
Boise Cascade	761	0.2	–46.8	724	9.4	8.6
Michigan National	761	0.2	4.0	309	17.3	5.7
WICOR	763	0.0	–8.7	267	18.5	39.6
Liquid Air	764	–0.1	–30.3	642	10.7	6.3
DEKALB AgResearch	765	–0.1	–58.6	621	11.0	–4.0
ACF Industries	766	–0.2	–97.7	879	5.8	–37.4
Toledo Edison	767	–0.2	19.5	490	13.2	14.4
Puget Sound Pwr & Lt	768	–0.2	–21.8	357	15.9	20.4
Gifford-Hill	769	–0.3	–84.3	580	11.9	–24.4
Celanese	770	–0.6	–58.5	753	8.6	–7.9
Avco	771	–0.6	–26.7	679	10.1	17.1
Stauffer Chemical	772	–0.6	P-D	794	7.6	–20.2
Ampco-Pittsburgh	773	–0.6	P-D	142	22.8	–40.9
Ryan Homes	774	–0.8	105.8	605	11.3	42.8
Olin	775	–0.9	–6.2	859	6.1	–1.5
Dana	776	–1.0	–25.2	615	11.1	2.8
Duquesne Light	777	–1.1	7.6	665	10.3	3.5
American Elec Power	778	–1.2	–6.2	372	15.6	2.9
Avondale Mills	779	–1.2	190.2	911	5.1	5.7
White Consolidated	780	–1.3	–11.6	715	9.4	–0.8
Monsanto	781	–1.3	–0.2	738	8.9	–7.6
Stewart & Stevenson	782	–1.4	–19.4	477	13.4	–29.8
Transway Intl	783	–1.4	–30.1	948	3.5	1.2
Parker Pen	784	–1.5	P-D	333	16.5	–3.3
Dow Chemical	785	–1.6	–58.9	496	13.1	–4.1
Manhattan Industries	786	–1.6	–1.2	871	5.9	10.4
Textron	787	–1.7	–22.8	939	3.8	–10.5
Armstrong Rubber	788	–2.0	356.4	726	9.3	16.0
Williams Cos	789	–2.0	–74.8	674	10.1	–21.5
Texas Instruments	790	–2.1	P-D	313	17.1	4.4
Amfac	791	–2.1	P-D	671	10.2	11.5
Carter Hawley Hale	792	–2.2	–4.4	431	14.3	19.3
RCA	793	–2.2	5.8	766	8.2	7.3
Black & Decker	794	–2.3	62.8	626	10.9	–13.1
Esco	795	–2.3	–12.7	645	10.7	17.9
Cessna Aircraft	796	–2.4	P-D	721	9.4	–45.6
National Distillers	797	–2.4	–54.7	850	6.3	18.4
Amer Maize-Products	798	–2.6	–63.6	793	7.7	–12.5
Skyline	799	–2.6	33.1	964	2.4	8.9
Ingersoll-Rand	800	–2.7	P-D	770	8.1	–22.8
Pennwalt	801	–2.8	–24.6	860	6.1	–10.7
Gulf & Western Inds	802	–2.8	P-D	710	9.6	–26.9
Pac Gamble Robinson	803	–3.0	–21.9	800	7.5	3.5
Weyerhaeuser	804	–3.1	–54.8	760	8.4	5.2
BancOhio	805	–3.4	–18.3	327	16.6	1.0
Gas Service	806	–3.4	–48.0	242	19.0	31.6
Eagle-Picher Inds	807	–3.4	–28.3	887	5.7	–12.7
Burroughs	808	–4.0	68.6	544	12.4	19.9
Brockway Inc (NY)	809	–4.1	–39.5	570	12.0	8.0
Potlatch	810	–4.2	–27.6	845	6.3	4.0
Willamette Inds	811	–4.2	–28.6	619	11.1	7.1
St Regis	812	–4.3	P-D	756	8.5	–1.4
Tribune	813	–4.5	–2.1	690	9.9	13.4
Owens-Corning Fbrgls	814	–4.6	57.9	434	14.2	13.7
Ideal Basic Inds	815	–4.6	–48.3	845	6.3	–16.0
Midland-Ross	815	–4.6	P-D	524	12.7	–13.5
Warner-Lambert	817	–4.6	54.1	838	6.7	–8.8
Gould	818	–4.6	–27.7	775	8.0	–26.3
Farm House Foods	819	–4.7	–87.0	28	38.7	3.2

Company	Earnings per share			Sales		
	rank	5-year average*	83† vs 1980-82	rank	5-year average*	83† vs 1980-82
Interlake	820	–4.8%	–43.6%	901	5.3%	–17.0%
Acme-Cleveland	821	–4.9	P-D	759	8.4	–54.3
Butler Manufacturing	822	–4.9	P-D	914	5.0	–13.7
Delta Air Lines	823	–4.9	P-D	376	15.5	10.2
Stewart-Warner	824	–5.0	–72.0	966	2.3	–18.6
Timken	825	–5.1	P-D	868	6.0	–30.7
Louisiana-Pacific	826	–5.2	–16.3	635	10.8	0.0
Raymond Intl	827	–5.4	24.0	89	26.3	36.2
Grumman	828	–5.7	164.8	873	5.9	12.7
Anchor Hocking	829	–5.8	P-D	777	8.0	–18.1
Diamond Shamrock	830	–6.1	–38.3	254	18.7	11.5
Georgia-Pacific	831	–6.3	–72.3	602	11.4	17.4
Jim Walter	832	–6.4	113.9	787	7.9	2.8
Barnes Group	833	–6.4	P-D	632	10.8	–4.3
Champion Intl	834	–6.5	–40.9	866	6.0	7.4
Deere	835	–6.7	P-D	758	8.4	–22.5
AMF	836	–6.8	P-D	973	1.9	–27.3
UMC Industries	837	–6.8	–72.9	782	7.9	–6.6
Kaufman & Broad	838	–6.8	D-P	849	6.3	7.3
No Indiana Pub Svc	838	–6.8	28.3	291	17.9	20.2
Champion Spark Plug	840	–7.0	–32.7	767	8.2	–6.2
Kellwood	841	–7.4	317.7	889	5.6	–3.4
Colonial Penn Group	842	–7.6	119.1	296	17.7	11.6
Rexnord	843	–7.6	–70.4	749	8.6	–23.2
Reichhold Chemicals	844	–7.7	45.4	772	8.0	–14.8
Yellow Freight System	845	–7.7	131.0	655	10.6	16.9
B F Goodrich	846	–7.8	P-D	803	7.5	–0.6
Genl Tire & Rubber	847	–7.8	10.5	971	2.0	–3.7
Arvin Industries	848	–7.8	34.1	919	4.8	15.9
McDermott Intl	849	–9.2	–13.2	203	20.0	–20.7
Mead	850	–9.2	P-D	729	9.2	–13.0
Walter E Heller Intl	851	–9.3	P-D		**	**
Fisher Foods	852	–9.6	–74.1	999	–5.3	–55.8
Reynolds Metals	853	–9.6	P-D	745	8.7	–6.2
Colt Industries	854	–9.9	635.4	825	7.1	–24.6
Dayco	855	–10.3	–64.4	820	7.3	–7.3
Zenith Radio	856	–10.3	138.4	909	5.1	6.1
Longview Fibre	857	–10.6	72.3	798	7.6	–5.8
Kaiser Alum & Chem	858	–10.8	P-D	740	8.9	–12.9
Polaroid	859	–11.0	–23.[illegible]	841	6.5	–9.6
U S Industries	859	–11.0	D-P	997	–4.7	–2.5
Cummins Engine	861	–11.3	P-D	721	9.4	–14.8
Phelps Dodge	862	–11.3	P-D	903	5.2	–24.2
Athlone Industries	863	–11.4	P-D	968	2.1	–22.2
Firestone	863	–11.4	3,540.0	979	1.4	–14.3
Copperweld	865	–11.9	P-D	866	6.0	–39.1
Libbey-Owens-Ford	866	–12.3	44.1	853	6.2	–4.1
Castle & Cooke	867	–12.8	–52.3	538	12.4	–9.9
Crane	868	–13.1	P-D	944	3.7	–30.0
Amerace	869	–13.3	P-D	948	3.5	–16.5
Del E Webb	870	–13.5	–73.7	970	2.0	–21.9
Allen Group	871	–13.6	P-D	883	5.7	–3.1
Bucyrus-Erie	872	–13.6	P-D	890	5.6	5.7
Primark	873	–13.8	5.6	415	14.7	14.1
General Motors	874	–13.8	1,525.3	853	6.2	12.5
J P Stevens	875	–14.1	110.9	855	6.2	–3.5
Northwestern Steel	876	–14.1	P-D	935	4.0	–67.2
Amdahl	877	–14.1	62.5	162	22.0	61.2
Caterpillar Tractor	878	–14.3	P-D	862	6.1	–42.8
AMAX	879	–14.4	P-D	362	15.8	–16.6
Cyclops	880	–15.0	P-D	745	8.7	–1.5
Lockheed	881	–16.1	D-P	703	9.7	16.4
Koppers*	882	–16.2	–82.9	800	7.5	–22.7

*For some companies (as noted in individual Yardsticks tables) the growth rate is for less than five years. For comparison, the five-year average annual increase in prices was 7.6%, as measured by the Department of Commerce's *Implicit Price Deflator for Gross National Product,* which measures inflation in all sectors of the economy.
†Latest 12-months. P-D: profit to deficit. D-P: deficit to profit. **Not available; not ranked.

Who's where in growth

Company	Earnings per share rank	5-year average*	83† vs 1980-82	Sales rank	5-year average*	83† vs 1980-82
Northwest Airlines	883	–16.3%	358.7%	397	15.1%	17.8%
F W Woolworth	884	–16.4	D-P	928	4.3	–18.2
Eaton	885	–16.5	171.1	783	7.9	–14.7
H F Ahmanson	886	–16.7	D-P	289	17.9	29.8
Sheller-Globe	887	–17.1	500.1	956	2.9	17.0
Fruehauf	888	–17.3	P-D	878	5.8	–4.7
American Can	889	–17.7	1,108.3	864	6.0	–26.5
A O Smith	890	–17.7	D-P	940	3.7	10.7
Macmillan	891	–18.0	112.4	987	–1.5	–9.9
Crown Zellerbach	892	–18.8	174.8	827	7.1	–11.8
Sybron	893	–19.0	P-D	943	3.7	–15.8
Beneficial Corp	894	–19.2	D-P	876	5.8	–14.3
Manville	895	–19.8	D-P	734	9.0	–16.7
Mohasco	896	–19.8	355.3	980	1.3	–4.9
Savin	897	–20.0	D-D	55	30.1	–4.9
General Public Utils	898	–20.7	86.9	473	13.5	17.7
Kane-Miller	899	–21.9	P-D	993	–3.5	8.3
El Paso	900	–22.5	D-P	191	20.3	14.8
Masonite	901	–22.7	205.0	978	1.6	12.3
Gt Western Financial	902	–23.0	D-P	234	19.1	45.1
Pittston	903	–23.4	P-D	789	7.8	–33.6
RLC	904	–24.3	–55.8	955	3.0	–3.1
Calif Federal S&L	905	–24.9	D-P	93	26.0	75.9
Dravo	906	–25.1	P-D	751	8.6	–32.1
Borman's	907	–25.3	–36.5	732	9.1	0.4
Foodarama Supermkts	908	–26.1	264.7	921	4.6	3.9
Southwest Forest Inds	909	–26.4	P-D	882	5.7	–8.2
Peabody Intl	910	–26.5	D-P	742	8.8	5.0
Chromalloy American	911	–27.2	P-D	950	3.4	–26.4
Alexander's	912	–28.3	D-P	881	5.7	–0.1
Lukens	913	–29.0	P-D	856	6.2	–12.7
Glendale Federal S&L	914	–29.1	592.1	87	26.8	58.8
Clark Equipment	915	–31.1	D-P	986	–1.2	–35.8
Hanna Mining	915	–31.1	P-D	995	–4.2	–47.0
United States Steel	917	–33.6	P-D	676	10.1	13.1
National-Standard	918	–34.0	D-D	953	3.2	–20.7
Nashua	919	–35.0	D-D	666	10.3	–11.7
Amer Hoist & Derrick	920	–36.0	P-D	906	5.2	–33.6
Kerr Glass Mfg	921	–36.9	P-D	577	11.9	–3.6
L B Foster	922	–40.1	P-D	958	2.8	–33.9
CertainTeed	923	–45.9	D-P	907	5.2	14.9
Westmoreland Coal	924	–55.5	D-P	909	5.1	11.2
Allis-Chalmers	925	P-D	D-D	944	3.7	–31.3
AM International	925	P-D	D-P	951	3.3	–23.1
American Bakeries	925	P-D	D-D	954	3.1	–3.3
AMR	925	P-D	D-P	447	13.9	12.3
Armco	925	P-D	P-D	712	9.5	–29.9
Baldwin-United	925	P-D	P-D	8	58.8	51.8
Bethlehem Steel	925	P-D	D-D	961	2.7	–28.4
Bird	925	P-D	D-D	941	3.7	–6.5
Chic Pneumatic Tool	925	P-D	P-D	815	7.4	–20.9
Eastern Air Lines	925	P-D	D-D	469	13.5	6.8
Evans Products	925	P-D	D-D	792	7.8	–6.5
Fedl Natl Mortgage	925	P-D	D-P	268	18.4	35.8
First Pennsylvania	925	P-D	D-D	946	3.5	–22.3
Ford Motor	925	P-D	D-P	920	4.7	10.0
GAF	925	P-D	D-D	998	–5.0	2.0
General Refractories	925	P-D	D-D	957	2.8	–27.0
Gibraltar Financial	925	P-D	D-P	171	21.4	24.3
Graniteville	925	P-D	D-D	959	2.8	–18.1
Gulf Resources & Chem	925	P-D	D-P	811	7.4	–18.1
Harnischfeger	925	P-D	D-D	900	5.3	–41.1
Home Federal S&L-Cal	925	P-D	D-P	186	20.7	29.4

Company	Earnings per share rank	5-year average*	83† vs 1980-82	Sales rank	5-year average*	83† vs 1980-82
Imperial Corp of Am	925	P-D	D-D	479	13.4%	13.9%
Inco	925	P-D	D-D	982	0.6	–47.4
Inland Steel	925	P-D	D-D	918	4.9	–12.0
Intl Harvester	925	P-D	D-D	981	0.9	–39.1
Interstate Bakeries	925	P-D	D-D	860	6.1	3.1
Jonathan Logan	925	P-D	500.0%	965	2.3	–9.2
Kaiser Steel	925	P-D	D-D	932	4.1	–34.4
Keystone Consolidated	925	P-D	D-D	962	2.6	–12.2
Mack Trucks	925	P-D	D-D	1003	–7.4	–20.0
Marion	925	P-D	D-D	95	25.9	–52.4
Massey-Ferguson	925	P-D	D-D	985	–0.6	–38.0
Mattel	925	P-D	P-D	164	21.9	1.4
National Intergroup	925	P-D	D-D	933	4.0	–20.9
NVF	925	P-D	D-D	562	12.2	–3.7
Oak Industries	925	P-D	P-D	116	24.4	–5.9
Pan Am World Airways	925	P-D	D-D	414	14.7	–3.7
Pettibone	925	P-D	D-D	929	4.3	–35.2
Ramada Inns	925	P-D	D-D	553	12.3	29.7
Republic Airlines	925	P-D	D-D	19	42.1	14.0
Republic Steel	925	P-D	D-D	929	4.3	–32.8
Revere Copper	925	P-D	D-D	916	4.9	–32.3
Talley Industries	925	P-D	D-P	992	–3.0	–16.1
Tiger International	925	P-D	D-D	126	23.8	–8.6
Toro	925	P-D	D-P	500	13.0	–9.5
Tosco	925	P-D	P-D	60	29.5	–5.4
Trans World	925	P-D	P-D	664	10.4	0.5
UAL	925	P-D	D-P	623	11.0	9.3
Uniroyal	925	P-D	26.0	988	–1.8	–9.1
United Brands	925	P-D	D-D	818	7.3	–13.0
Western Air Lines	925	P-D	D-D	656	10.5	7.7
Wheeling-Pitts Steel	925	P-D	D-D	983	0.1	–29.0
Wickes Cos	925	P-D	D-D	366	15.8	–11.9
Wilson Foods	925	P-D	D-D	976	1.8	–4.1
Allied Supermarkets	979	D-D	–53.9	1004	–8.7	–1.2
American Motors	979	D-D	D-D	926	4.4	13.4
Chrysler	979	D-D	D-P	996	–4.7	16.3
Cook United	979	D-D	D-D	844	6.4	7.2
Great Atl & Pac Tea	979	D-D	D-P	994	–3.7	–17.8
HRT Industries	979	D-D	D-D	583	11.8	9.5
Pantry Pride	979	D-D	–12.3	1005	–14.6	–14.3
Rath Packing	979	D-D	D-D	974	1.8	–7.1
Singer	979	D-D	–98.7	960	2.7	–10.1
Texas Air	979	D-D	D-D	15	46.6	66.5
United Merch & Mfrs	979	D-D	D-D	1001	–7.1	–22.3
Arden Group		D-P	–28.7	984	0.0	–6.7
Coleco Industries		D-P	85.7	102	25.3	120.0
Donaldson, Lufkin		D-P	27.8	32	36.3	18.0
GEICO		D-P	15.0	912	5.0	13.0
General Host		D-P	113.9	991	–2.8	29.4
Genesco		D-P	P-D	1002	–7.2	–13.3
Litton Industries		D-P	–24.7	850	6.3	0.2
MCI Communications		D-P	105.2	6	65.2	129.3
PSA		D-P	P-D	239	19.0	21.1
Pueblo International		D-P	13.2	989	–2.0	7.2
Rohr Industries		D-P	162.9	839	6.6	4.9
Sanders Associates		D-P	47.3	308	17.4	67.2
Scot Lad Foods		D-P	P-D	972	1.9	–0.2
Todd Shipyards		D-P	–12.2	195	20.2	–1.7
Warnaco		D-P	14.9	904	5.2	1.1
American President		**	**	681	10.0	12.2
Gulfstream Aerospace		**	**		**	**
Pabst Brewing		**	**		**	**
Swift Independent		**	2.0	826	7.1	11.2

*For some companies (as noted in individual Yardsticks tables) the growth rate is for less than five years. For comparison, the five-year average annual increase in prices was 7.6%, as measured by the Department of Commerce's *Implicit Price Deflator for Gross National Product,* which measures inflation in all sectors of the economy.
†Latest 12-months. P-D: profit to deficit. D-P: deficit to profit; not ranked. D-D: deficit to deficit. **Not available; not ranked.

Wall Street was generous when earnings met optimistic expectations, ruthless when earnings disappointed.

Who's where in the stock market

AFTER BEING IN THE doghouse for many years, the stocks of the big companies, the kind covered in the Forbes Annual Reports, had a better time of it in 1983. Of the 1,008 companies in this year's survey, 472 outperformed the 5,000-stock Wilshire index over the five-year period. In the last survey, only 458 firms were able to make the same boast.

As 1983 drew to a close, the Wilshire index and the Dow industrials were up by the same amount: 19%. Thus the big stocks and the little stocks were more in gear this past year than they have been for a long time—meaning that last year's bull market was a broad one. But as the year progressed, much of the euphoria that began in August of 1982 was replaced by hard-nosed analysis of present and near-term corporate prospects. A number of lofty multiples were unable to stand up under such scrutiny. Investors couldn't bail out fast enough from the likes of Digital Equipment, Texas Instruments and Warner Communications. Other computer and technology firms also suffered sharp pullbacks as investors, realizing the increased competition in those fields, grew wary at even a slight downturn in quarterly earnings growth.

The action then moved to less exciting but seemingly undervalued groups of stocks: truckers, housewares and furnishings, railroads and chemicals.

In the last two years the Forbes list has had 14 superstars with five-year gains of 1,000% or more. The champion of them all? A $10,000 investment in Pulte Home at the end of 1978 is worth almost $300,000 today. This Michigan-based builder of inexpensive single-family homes, the best performer in this year's stock market survey, advanced 2,885% in price over five years. It outperformed last year's top stock, First Executive, by some 14%.

In spite of the air pockets that were encountered by so many former high-flyers, there were plenty of chances to make good money in stocks in 1983. A year ago, the 100th-ranked stock was ahead 244%, but this time the 100th-ranked issue shows a 314% price gain. Lowe's Cos., now ranked 154, did as well as last year's 100th-ranked stock.

In all, 115 companies increased by 300% or more over five years. Over the same period, the Consumer Price Index rose 54.9%, and 632 of the companies covered here more than kept up with this inflation. Factor in an average dividend yield of a little over 4%, and you can see that, on the whole, shareholders of major corporations fared well on Wall Street over the last five years.

It seems so very long ago when everybody wanted such things as commodity options and Mickey Mouse ashtrays and nobody wanted common stocks. It looks as if the 1980s are going to be the decade of the stock market, just as the 1970s were the decade of the inflation hedge.

Who's where in the stock market

Rank 83	Rank 82	Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
1	*	**Pulte Home**	2,885.3%	37½– ⅞	27⅜	$ 3.71	7.4	$1.82	15	$0.10	0.4%
2	1	**First Executive**	1,883.1	18⅞– ⅝	11⅛	5.07	2.2	0.92	12	none	0.0
3	3	**Subaru of America**	1,636.8	87 – 4⅝	82½	16.93	4.9	7.75	11	1.24	1.5
4	7	**Toys "R" Us**	1,522.1	48⅝– 2½	41¼	6.12	6.7	1.26	33	none	0.0
5	2	**MCI Communications**	1,432.5	28½– ⅞	14⅜	3.31	4.3	0.93	15	none	0.0
6	15	**Wal-Mart Stores**	1,385.6	46⅝– 2⅞	42¼	3.67	11.5	1.21	35	0.14	0.3
7	*	**Limited**	1,306.7	31 – 1	26⅜	2.10	12.6	0.84	31	0.12	0.5
8	*	**Coleco Industries**	1,235.6	65 – 1½	20⅞	6.06	3.4	2.68	8	none	0.0
9	*	**Fin Corp of America**	1,053.2	32¾– 1⅝	23⅜	5.62	4.2	4.60	5	0.68	2.9
10	12	**Zayre**	993.3	52¼– 4⅛	46⅛	17.56	2.6	3.02	15	0.30	0.7
11	10	**Anixter Bros**	880.5	29 – 2⅜	22⅜	6.68	3.3	0.72	31	0.24	1.1
12	4	**Wang Laboratories**	837.8	42½– 3½	34⅞	7.09	4.9	1.24	28	0.12	0.3
13	29	**Chic & North Western**	829.6	53⅞– 3¾	47¼	11.30	4.2	0.59	NM	none	0.0
14	8	**Bergen Brunswig**	821.0	39½– 3	27½	7.72	3.6	1.50	18	0.32	1.2
15	250	**Rose's Stores**	800.1	24 – 2¼	21	9.41	2.2	2.00	11	0.24	1.1
16	*	**Oxford Industries**	795.9	51⅝– 4⅜	42	18.52	2.3	4.29	10	0.64	1.5
17	37	**GEICO**	778.6	64 – 6⅞	61½	16.85	3.6	4.20	15	0.72	1.2
18	71	**Stop & Shop Cos**	740.4	62⅝– 5⅛	54⅝	17.70	3.1	3.94	14	0.75	1.4
19	41	**Berkshire Hathaway**	729.1	1,320 –154	1,310	737.06	1.8	56.68	23	none	0.0
20	32	**G Heileman Brewing**	727.8	44 – 3⅞	32½	7.33	4.4	2.10	15	0.46	1.4
21	136	**Varian Associates**	725.9	63⅜– 6⅞	55¾	14.06	4.0	2.14	26	0.26	0.5
22	36	**Electronic Data Systems**	723.7	42⅛– 4⅝	39⅛	4.48	8.7	1.10	36	0.34	0.9
23	48	**VF**	697.0	41⅜– 4¼	33⅝	9.46	3.6	3.55	9	1.00	3.0
24	55	**E-Systems**	654.2	44¾– 4	35	6.63	5.3	1.70	21	0.50	1.4
25	14	**E F Hutton Group**	641.5	53⅛– 4⅞	36¾	18.68	2.0	5.80	6	0.80	2.2
26	62	**R H Macy**	639.5	64⅞– 7⅛	58¾	18.99	3.1	3.88	15	0.80	1.4
27	82	**Dillard Dept Stores**	610.8	62¾– 6	57¾	23.10	2.5	4.80	12	0.30	0.5
28	50	**Texas Oil & Gas**	598.6	26⅞– 3⅜	23¼	4.41	5.3	1.40	17	0.16	0.7
29	27	**Paine Webber**	592.4	61⅜– 5⅜	37	12.08	3.1	5.53	7	0.60	1.6
30	97	**Stone Container**	588.3	40½– 5¾	40⅜	14.82	2.7	0.24	NM	0.60	1.5
31	*	**MEI**	579.1	37¼– 4⅞	36½	8.12	4.5	2.20	17	0.36	1.0
32	51	**Warnaco**	567.4	36¼– 4⅜	29	14.64	2.0	2.67	11	0.70	2.4
33	*	**State Street Boston**	556.7	47½– 5	33¼	24.36	1.4	4.23	8	0.90	2.7
34	*	**Sanders Associates**	547.1	61 – 8⅛	55	15.11	3.6	2.14	26	0.44	0.8
35	40	**Lockheed**	544.2	47½– 6	41⅞	7.78	5.4	3.94	11	none	0.0
36	113	**Saga**	543.6	40¼– 3½	31⅜	10.62	3.0	2.17	14	0.36	1.1
37	39	**Federal Express**	541.9	44¼– 5¼	42⅛	11.47	3.7	2.19	19	none	0.0
38	35	**Walgreen**	531.1	40 – 6⅛	39¼	9.81	4.0	2.28	17	0.72	1.8
39	17	**Sysco**	529.5	44½– 5⅞	37¼	11.55	3.2	1.96	19	0.36	1.0
40	41	**First Boston**	526.4	66⅞– 5	42	28.33	1.5	8.35	5	2.10	5.0
41	116	**Fuqua Industries**	526.0†	39⅞– 4½	27	9.91	2.7	3.94	7	0.36	1.3
42	182	**Fleetwood Enterprises**	524.7	41⅞– 2⅝	34¾	6.85	5.1	1.87	19	0.30	0.9
43	*	**Cole National**	519.0	37 – 4⅜	30⅜	10.94	2.8	1.80	17	0.48	1.6
44	83	**Dow Jones**	517.2	57 – 8	49⅜	5.24	9.4	1.64	30	0.60	1.2
45	70	**Avnet**	512.4	50 – 7⅛	43½	15.08	2.9	1.61	27	0.50	1.1
46	5	**Comdisco**	510.5	42 – 1¾	19	3.87	4.9	1.78	11	0.16	0.8
47	6	**Humana**	507.6	40 – 4⅝	28⅝	5.74	5.0	1.96	15	0.72	2.5
48	52	**Marriott**	503.1	81 – 11⅝	73⅛	19.43	3.8	3.95	19	0.36	0.5
49	151	**Burlington Northern**	488.7	109½– 17¾	104½	76.66	1.4	9.99	10	1.80	1.7
50	*	**ROLM**	471.6	80 – 10⅛	59⅛	17.39	3.4	1.45	41	none	0.0
51	11	**Food Lion**	470.5	15 – 1⅞	11¼	1.88	6.0	0.50	23	0.04	0.4
52	*	**Wometco Enterprises**	465.9	43⅞– 7½	41⅞	11.30	3.7	1.61	26	0.44	1.1
53	13	**Beverly Enterprises**	463.8	44¾– 3⅞	27¼	11.57	2.4	1.42	19	0.28	1.0
54	56	**Natl Convenience Stores**	459.0	21½– 3⅜	20½	4.76	4.3	1.00	21	0.40	2.0
55	9	**Tandy**	450.4	64½– 4½	37½	10.71	3.5	2.72	14	none	0.0
56	86	**Parsons**	450.3	27¼– 4⅛	24	7.16	3.4	1.81	13	1.00	4.2
57	125	**United States Shoe**	448.8	49 – 5½	38⅞	15.42	2.5	3.07	13	0.76	2.0
58	19	**Natl Medical Entrprs**	447.6	32⅜– 3½	23	9.88	2.3	1.54	15	0.44	1.9
59	63	**Pneumo**	440.4	33⅜– 3⅞	26⅞	8.48	3.2	2.31	12	0.50	1.9
60	80	**Dean Foods**	438.5	39¾– 5	35	10.03	3.5	2.24	16	0.60	1.7
61	149	**Esmark**	432.2	44⅜– 7⅜	40⅞	20.31	2.0	3.76	11	1.04	2.5
62	94	**General Cinema**	427.3	45½– 8	43½	9.12	4.8	4.95	9	0.64	1.5
63	78	**General Host**	425.6	17⅝– 3⅛	16½	10.33	1.6	1.35	12	0.35	2.1

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Index was 54.9%.

*Not ranked last year. †Price change does not reflect the value of shares received in spinoff. NM: not meaningful.

Who's where in the stock market

Rank 83	Rank 82	Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/book value	Latest 12-month earnings per share	Price/earnings ratio	Indicated annual dividend	Current yield
64	188	Savannah Foods	423.1%	36 – 6⅜	34¼	$20.70	1.7	$ 7.27	5	$1.80	5.3%
65	128	Sherwin-Williams	422.5	31¾– 4⅞	26⅛	14.55	1.8	2.21	12	0.60	2.3
66	134	Mitchell Energy & Dev	422.2	45⅝– 4½	23½	9.54	2.5	1.77	13	0.24	1.0
67	91	Giant Food	421.6	25 – 4⅛	21⅞	11.56	1.9	2.58	8	0.60	2.7
68	132	American Greetings	417.6	28⅝– 4⅞	27½	10.18	2.7	1.60	17	0.42	1.5
69	*	Allegheny Beverage	415.6	24¾– 3⅜	20⅝	7.36	2.8	2.60	8	0.40	1.9
70	44	James River Corp Va	399.0	42¼– 6⅜	34⅜	13.99	2.5	2.97	12	0.40	1.2
71	435	Levitz Furniture	397.3	47½– 8⅞	46	16.37	2.8	1.99	23	0.72	1.6
72	126	Intel	387.9	46¼– 8¼	40¼	6.09	6.6	0.73	55	none	0.0
73	18	Waste Management	383.9	61⅞– 8¾	43¾	14.09	3.1	2.53	17	0.68	1.6
74	427	Collins & Aikman	374.6	45 – 6¼	39¾	18.95	2.1	3.13	13	1.00	2.5
75	53	Browning-Ferris Inds	374.0	47⅝– 7¾	39½	10.76	3.7	2.31	17	0.80	2.0
76	67	ConAgra	373.1	35 – 7¼	34½	15.17	2.3	2.67	13	1.14	3.3
77	76	Hannaford Bros	364.0	30 – 5⅜	29⅞	14.72	2.0	2.98	10	0.80	2.7
78	59	Merrill Lynch	363.4	56½– 7¾	35⅝	18.36	1.9	4.94	7	0.80	2.2
79	21	Metromedia	363.3	57 – 5⅛	25¼	4.10	6.2	2.26	11	0.76	3.0
80	85	Peoples Drug Stores	362.2	31¾– 4⅞	26½	10.08	2.6	1.79	15	0.28	1.1
81	16	SCOA Industries	360.2	33⅞– 6	27¾	9.26	3.0	1.92	14	0.60	2.2
82	24	USAir Group	355.2	39⅞– 6½	33	22.52	1.5	2.85	12	0.12	0.4
83	100	CFS Continental	353.8	26¼– 4¼	25⅜	12.61	2.0	1.86	14	0.40	1.6
84	131	Hartmarx	353.3	36¼– 6½	34	20.19	1.7	2.76	12	0.94	2.8
85	34	EG&G	350.0	38⅛– 6½	32⅝	5.93	5.5	1.50	22	0.40	1.2
86	123	Rite Aid	349.4	44¾– 9½	44⅜	12.37	3.6	2.79	16	0.64	1.4
87	61	Payless Cashways	348.9	34½– 5⅜	26⅜	5.65	4.7	1.23	21	0.12	0.5
88	606	Roper Corp	345.8	29⅜– 4¼	21⅞	13.95	1.6	1.99	11	0.50	2.3
89	*	City Federal S & L	343.9‡‡	15½– 2½	11⅝	9.44	1.2	2.05	6	none	0.0
90	110	Super Valu Stores	343.2	37 – 7¾	34⅝	8.90	3.9	2.01	17	0.60	1.7
91	23	Piedmont Aviation	342.8	42⅛– 7⅜	32¾	23.49	1.4	1.60	20	0.28	0.9
92	210	Trinity Industries	342.5	30¾– 4⅝	22⅛	11.74	1.9	0.82	27	0.50	2.3
93	*	Trust Co of Georgia	339.3	42 – 8½	41	17.28	2.4	4.15	10	1.00	2.4
94	108	Commercial Metals	338.9	27⅞– 5	21½	17.50	1.2	1.25	17	0.36	1.7
95	25	Donaldson, Lufkin	337.9	24⅞– 3¼	15⅞	11.41	1.4	1.55	10	0.24	1.5
96	618	Northwest Energy	334.6	39½– 8⅞	38¾	22.66	1.7	1.76	22	1.50	3.9
97	215	American Stores	330.3	44 – 6¾	39⅝	12.15	3.3	3.11	13	0.48	1.2
98	*	Jerrico	330.3	23¾– 3⅞	17¾	10.29	1.7	1.35	13	0.12	0.7
99	157	Meredith	317.3	42⅝– 9	38¼	20.95	1.8	3.91	10	0.72	1.9
100	115	Waldbaum	313.7	28¼– 4⅛	17	19.35	0.9	3.08	6	none	0.0
101	20	M/A-Com	313.5	35½– 5½	24⅛	7.75	3.1	0.72	34	0.20	0.8
102	49	Shopwell	313.5	35⅜– 3⅜	13⅝	17.30	0.8	1.82	7	0.16	1.2
103	73	Loews	312.7	176 –41¼	171¼	119.13	1.4	26.47	6	1.20	0.7
104	231	Rohm & Haas	312.6	81 –15⅞	65¼	31.31	2.1	5.17	13	1.60	2.5
105	350	Associated Dry Goods	312.2	71½–15¾	67½	41.66	1.6	5.37	13	2.20	3.3
106	156	Dayton-Hudson	311.6	41 – 8⅝	35⅜	13.98	2.5	2.31	15	0.65	1.8
107	461	Culbro	310.5	26½– 3	24⅜	27.48	0.9	1.97	12	0.60	2.5
108	394	Brunswick	308.9	26⅛– 5⅛	25⅞	15.64	1.7	1.61	16	0.60	2.3
109	74	Pay Less Drug NW	308.7	20⅛– 3⅞	17⅝	6.07	2.9	1.14	15	0.27	1.5
110	174	M Lowenstein	307.6	55¼– 7½	54	50.65	1.1	5.31	10	1.60	3.0
111	244	Perini	307.5	43⅜–10⅛	40¾	28.55	1.4	4.05	10	0.80	2.0
112	66	PHH Group	306.3	47 – 7⅝	32¼	11.94	2.7	2.24	14	0.84	2.6
113	118	Purolator	305.0	70 –14	67½	20.75	3.3	4.54	15	1.20	1.8
114	93	Brown Group	303.1	39⅞– 7¼	32¾	17.29	1.9	3.03	11	1.10	3.4
115	129	Seagram	302.7	37⅞– 9⅛	37¾	28.55	1.3	2.47	15	0.68	1.8
116	31	Hospital Corp of Am	297.1	56⅝– 8⅝	40⅜	15.92	2.5	2.68	15	0.40	1.0
117	161	Penn Central	297.1	41⅛– 9¼	39⅜	36.93	1.1	2.15	18	none	0.0
118	65	ServiceMaster Inds	296.7	46 – 7⅞	33½	2.51	13.3	1.11	30	0.88	2.6
119	141	Flowers Industries	296.3	21¼– 4⅜	19⅝	7.31	2.7	1.28	15	0.48	2.5
120	140	Pioneer	293.9	33⅝– 6⅛	24¼	9.95	2.4	2.11	11	1.24	5.1
121	175	Arden Group	293.8	8¾– 2⅜	7⅞	9.79	0.8	0.63	13	none	0.0
122	101	G D Searle	290.6	55⅞–11½	51¾	13.32	3.9	3.03	17	0.52	1.0
123	329	Magic Chef	288.9	41 – 6	39⅜	20.42	1.9	3.37	12	0.72	1.8
124	158	Grumman	288.5	33⅝– 7½	29⅝	13.61	2.2	2.48	12	0.90	3.0
125	121	Nordstrom	283.1	46¼– 7½	36⅞	10.92	3.4	2.03	18	0.28	0.8
126	539	Strawbridge & Clothier	281.7	72 –16¼	72	62.10	1.2	8.03	9	1.50	2.1

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Index was 54.9%.

*Not ranked last year. ‡‡Three year price change.

Who's where in the stock market

Rank 83	Rank 82	Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
127	370	Natl Semiconductor	281.2%	20 – 4⅛	18	$ 4.68	3.8	$–0.06	def	none	0.0%
128	208	Mercantile Stores	280.2	75½–12⅜	50⅜	31.08	1.6	5.10	10	$1.00	2.0
129	90	McGraw-Hill	274.3	53⅞–11⅞	45⅝	10.85	4.2	2.44	19	1.08	2.4
130	87	Capital Cities Commun	272.2	157½–36¾	147½	41.29	3.6	8.04	18	0.20	0.1
131	219	Sonoco Products	272.0	46½–12⅜	46½	19.99	2.3	2.83	16	1.10	2.4
132	64	Supermarkets General	270.8	27⅝– 5½	23⅞	11.66	2.0	2.25	11	0.38	1.6
133	22	General Instrument	269.1	66⅞– 8⅞	33⅜	19.22	1.7	2.32	14	0.50	1.5
134	*	First Atlanta	267.8	23 – 4¾	21¼	14.27	1.5	2.70	8	0.76	3.6
135	111	General Dynamics	267.1	60 –13⅜	58⅜	21.57	2.7	4.95	12	1.00	1.7
136	334	Hanover Insurance	265.6	65¼–14⅞	55¾	59.06	0.9	7.80	7	0.88	1.6
137	124	Dynalectron	265.4	17⅜– 3⅛	11⅞	9.40	1.3	1.02	12	0.25	2.1
138	823	Allied Supermarkets	264.3	4⅞– ⅝	3¼	7.44	0.4	0.26	12	none	0.0
139	69	Litton Industries	263.6	86⅞–17¼	64⅝	42.51	1.5	5.41	12	1.80	2.8
140	58	U S Home	263.0	20¾– 3½	13⅛	8.72	1.5	0.93	14	0.32	2.4
141	146	Rockwell Intl	262.0	35½– 8⅞	32⅛	13.39	2.4	2.52	13	0.88	2.7
142	218	AMP	259.2	112 –29½	110	19.91	5.5	4.00	28	1.60	1.5
143	227	National Svc Inds	257.9	43 –10¾	38¼	18.17	2.1	3.37	11	1.20	3.1
144	133	Dun & Bradstreet	255.6	70 –15⅜	62	8.96	6.9	2.87	22	1.60	2.6
145	195	Curtice-Burns	255.3	27 – 6⅜	25⅜	13.26	1.9	2.40	11	0.69	2.7
146	54	Nucor	255.2	41⅛–10⅛	37	16.60	2.2	1.75	21	0.32	0.9
147	167	Kelly Services	253.6	47½–10¾	44	12.73	3.5	2.33	19	1.00	2.3
148	258	SEDCO	252.7	49 – 8⅛	35⅛	20.10	1.7	5.95	6	0.58	1.7
149	228	Motorola	252.0	150 –36	140⅜	44.40	3.2	5.30	26	1.60	1.1
150	186	Fleming Cos	250.0	31⅛– 7⅝	28	13.09	2.1	2.24	13	0.72	2.6
151	422	Munford	247.9	27 – 4¼	20⅞	12.68	1.6	1.72	12	0.50	2.4
152	46	Teledyne	246.8	174¾–47⅜	165⅛	101.00	1.6	12.14	14	none	0.0
153	237	Ametek	243.8	26 – 7½	26	7.26	3.6	1.41	18	0.80	3.1
154	337	Lowe's Companies	243.8	32¾– 5½	24¾	5.96	4.2	1.16	21	0.32	1.3
155	142	Borg-Warner	241.8	27¾– 6¾	24¼	16.19	1.5	1.95	12	0.84	3.5
156	194	Tyco Laboratories	241.8	29⅜– 8⅛	28⅝	17.29	1.7	2.18	13	0.70	2.4
157	233	Avery International	240.0	25¾– 7⅛	25½	10.34	2.5	1.62	16	0.52	2.0
158	60	Republic New York	238.6	50 –11⅜	39½	29.78	1.3	5.54	7	1.52	3.8
159	77	Allied Bancshares	235.1	27½– 6⅜	21	9.92	2.1	2.51	8	0.76	3.6
160	406	Super Food Services	233.9	30 – 5⅞	27¼	10.10	2.7	1.94	14	0.40	1.5
161	98	Dibrell Brothers	233.3	27⅜– 5¼	20	18.07	1.1	3.39	6	0.80	4.0
162	43	Todd Shipyards	231.7	41¾–10⅜	34	27.32	1.2	4.67	7	1.32	3.9
163	112	Revco D S	230.9	36¼– 9⅛	34⅜	11.59	3.0	2.22	15	0.68	2.0
164	286	Univar	229.8	35 – 6¾	23½	17.58	1.3	1.26	19	0.68	2.9
165	126	Albertson's	228.1	30¼– 8⅜	30¼	10.44	2.9	1.98	15	0.60	2.0
166	239	Holiday Inns	227.5	59 –13¾	53⅝	24.94	2.2	3.15	17	0.84	1.6
167	81	Hewlett-Packard	226.0	48¼–10½	36⅝	9.37	3.9	1.69	22	0.18	0.5
168	902	Chrysler	223.2	35⅝– 3	27⅞	–5.61	NE	1.62	17	none	0.0
169	153	New York Times	222.9	30⅝– 6	30	8.75	3.4	1.73	17	0.48	1.6
170	373	Macmillan	221.6	38¾– 9½	30⅝	15.42	2.0	2.35	13	0.80	2.6
171	787	Pantry Pride	221.4	7¾– 1⅜	5⅝	–3.68	NE	0.19	30	none	0.0
172	148	Flickinger	220.8	28⅜– 6⅛	25	13.95	1.8	2.42	10	0.66	2.6
173	169	Thriftimart	218.8	51 –15⅛	51	64.46	0.8	4.81	11	1.60	3.1
174	319	Archer Daniels Midland	218.0	26½– 7⅛	23¼	16.64	1.4	1.35	17	0.14	0.6
175	211	Masco	217.0	37 – 9⅝	31½	10.44	3.0	1.76	18	0.44	1.4
176	*	Life Investors	216.7	34 –10	33⅜	26.12	1.3	2.89	12	0.24	0.7
177	217	Zapata	216.2	39⅝– 5¼	16¼	20.86	0.8	2.45	7	0.84	5.2
178	205	R R Donnelley & Sons	214.7	48 –11⅞	42⅞	16.43	2.6	2.88	15	0.84	2.0
179	850	Scot Lad Foods	214.3	11⅜– 3½	11	8.18	1.3	–0.11	def	none	0.0
180	685	Fidelcor	209.9	37¾– 8⅞	35¼	40.17	0.9	8.43	4	2.20	6.2
181	30	Big V Supermarkets	208.6	16⅝– 2⅞	12½	6.65	1.9	1.20	10	0.40	3.2
182	203	Hershey Foods	207.9	35 – 8¾	31¾	16.99	1.9	2.99	11	1.15	3.6
183	425	North Amer Philips	207.4	79⅝–23½	78	56.57	1.4	6.31	12	1.70	2.2
184	302	Circle K	207.2	25 – 7⅜	24	6.16	3.9	1.63	15	0.74	3.1
185	312	West Point-Pepperell	206.5	53 –13⅜	50	38.33	1.3	5.10	10	2.20	4.4
186	204	Manhattan Industries	206.5	25⅝– 4¼	24⅞	15.64	1.6	2.01	12	0.30	1.2
187	447	Santa Fe Industries	205.1	36⅜– 9⅞	30	29.60	1.0	2.21	14	1.00	3.3
188	137	Barnett Banks Fla	204.9	41 –11⅛	39⅛	23.64	1.7	4.44	9	1.20	3.1
189	*	Banc One	203.4	31⅛– 7⅜	29¼	14.19	2.1	2.60	11	0.96	3.3

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Index was 54.9%.

*Not ranked last year. def: deficit. NE: negative equity.

Who's where in the stock market

Rank		Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
83	82										
190	*	**Cox Communications**	203.1%	55¼–13⅞	42¼	$15.21	2.8	$2.49	17	$0.30	0.7%
191	707	**G C Murphy**	202.1	40⅜– 9⅝	36¼	33.74	1.1	3.73	10	1.28	3.5
192	335	**H H Robertson**	201.9	42 –13⅜	40	29.07	1.4	3.62	11	1.60	4.0
193	200	**Farm House Foods**	201.9	7 – 1⅝	6⅛	3.04	2.0	0.03	NM	none	0.0
194	185	**Dover**	201.8	38½–10	31½	12.61	2.5	2.10	15	0.74	2.3
195	273	**Ceco**	201.1	24½– 7½	22⅜	26.35	0.8	2.38	9	0.72	3.2
196	105	**Washington Post**	201.1	72 –15⅞	70	18.32	3.8	4.37	16	0.66	0.9
197	159	**Golden West Finl**	200.0	30½– 4½	23½	7.66	3.1	3.70	6	0.06	0.3
198	444	**Sheller-Globe**	200.0	33½– 4¾	27	17.79	1.5	1.82	15	0.60	2.2
198	719	**Southern Pacific**	200.0	41⅞–12½	37⅞	41.86	0.9	9.52	4	1.50	4.0
200	92	**Alleghany**	199.4	95 –17½	64⅜	42.55	1.5	5.51	12	1.08	1.7
201	152	**Pioneer Hi-Bred Intl**	199.4	34¼– 9	30⅛	10.43	2.9	1.37	22	0.72	2.4
202	177	**Abbott Laboratories**	197.0	533¾–14⅞	50⅛	10.74	4.7	2.70	19	1.00	2.0
203	402	**Dorsey**	196.8	44⅝–12	34⅞	23.49	1.5	3.19	11	1.20	3.4
204	88	**Blount**	196.3	19½– 4⅛	12½	7.32	1.7	1.59	8	0.30	2.4
205	299	**Westinghouse Electric**	196.2	53⅜–16½	49¼	36.31	1.4	4.66	11	1.80	3.7
206	229	**Time Inc**	195.9	78⅜–17⅞	63¼	23.73	2.7	2.51	25	1.00	1.6
207	166	**A C Nielsen**	194.6	39¾–10⅝	34¼	9.95	3.4	2.20	16	0.68	2.0
208	254	**Pitney Bowes**	193.0	35¾–10⅞	34¼	14.32	2.4	2.04	17	0.92	2.7
209	667	**Shaklee**	191.6	42¼– 6⅜	19½	9.69	2.0	2.71	7	0.72	3.7
210	339	**A H Robins**	191.4	29⅜– 6⅝	25½	13.29	1.9	2.37	11	0.68	2.7
211	263	**Fleet Financial**	190.8	50¾–15	47¼	37.03	1.3	6.71	7	2.40	5.1
212	236	**Kane-Miller**	190.6	19⅞– 6¾	19¼	38.82	0.5	−2.47	def	0.28	1.5
213	145	**General Re**	189.8	73 –18⅞	64⅛	25.29	2.5	4.73	14	1.28	2.0
214	268	**Armstrong Rubber**	189.8	44¼– 7¼	35½	35.37	1.0	4.64	8	0.80	2.3
215	220	**Morrison-Knudsen**	189.7	46½– 9⅜	28¼	29.98	0.9	3.74	8	1.32	4.7
216	356	**PPG Industries**	189.6	37¼–11⅞	34⅜	24.55	1.4	2.96	12	1.28	3.7
217	38	**Amer Medical Intl**	189.5	37¼– 6½	24⅛	9.15	2.6	2.05	12	0.48	2.0
218	344	**Equifax**	188.0	37⅞– 8½	29⅞	10.43	2.9	2.32	13	1.60	5.4
219	226	**Turner Construction**	187.6	42½–12½	37¾	22.52	1.7	5.73	7	2.00	5.3
220	336	**Bausch & Lomb**	187.2	35 – 8⅞	28	10.47	2.7	1.49	19	0.78	2.8
221	122	**Fort Howard Paper**	187.0	62 –17⅞	55¼	16.40	3.4	3.73	15	1.32	2.4
222	442	**KN Energy**	186.9	56 –14⅝	44¾	18.27	2.4	3.47	13	1.48	3.3
223	360	**Phillips-Van Heusen**	184.9	21⅛– 5	18⅞	18.31	1.0	2.17	9	0.40	2.1
224	207	**Ball Corp**	184.4	36⅜– 9½	32	20.96	1.5	3.39	9	1.16	3.6
225	240	**First Union**	183.9	41½– 9¾	39¾	27.61	1.4	5.28	8	1.36	3.4
226	562	**Amstar**	183.6	50⅝–14	45⅜	40.56	1.1	3.16	14	1.90	4.2
227	266	**Service Merchandise**	180.9	27 – 3⅞	23⅞	7.08	3.4	1.30	18	0.08	0.3
228	601	**Uniroyal**	180.0	17⅞– 3⅛	15¾	17.60	0.9	0.84	19	none	0.0
229	310	**Bell & Howell**	179.4	28¾– 7⅜	22	15.24	1.4	2.93	8	0.50	2.3
230	349	**Roadway Services**	179.3	71¼–22	69⅛	22.75	3.0	4.59	15	1.80	2.6
231	106	**Ryder System**	178.7	61⅜–14¼	58	25.00	2.3	4.16	14	1.08	1.9
232	275	**Wachovia**	177.9	47⅛–15¼	45½	27.96	1.6	4.72	10	1.56	3.4
233	*	**Global Marine**	177.8	36½– 3½	9⅜	14.85	0.6	2.04	5	0.24	2.6
234	103	**Anheuser-Busch Cos**	176.3	77 –19⅜	65⅝	34.10	1.9	6.37	10	1.76	2.7
235	109	**Weis Markets**	176.3	40⅜– 9⅞	28¾	11.89	2.4	2.33	12	0.56	1.9
236	68	**Cincinnati Milacron**	176.1	46¾–10	30⅜	14.53	2.1	−0.65	def	0.72	2.4
237	274	**Ruddick**	175.4	29⅝– 6⅜	22⅜	17.62	1.3	2.64	8	0.77	3.4
238	295	**Morton Thiokol**	174.9	80½–21¼	79⅜	32.78	2.4	5.50	14	1.76	2.2
239	510	**Outboard Marine**	174.6	46¾– 8⅞	46	38.12	1.2	4.51	10	1.04	2.3
240	191	**Martin Marietta**	172.8	43¼–13¼	36⅜	15.15	2.4	3.37	11	1.34	3.7
241	197	**Citizens & Sthrn Ga**	172.5	15⅞– 4¾	13⅝	10.96	1.2	1.83	7	0.64	4.7
242	441	**AMR**	171.7	38¼– 6¾	36	22.07	1.6	2.18	17	none	0.0
243	700	**Cone Mills**	170.7	63½–22½	61¼	60.95	1.0	2.93	21	1.60	2.6
244	288	**Shell Oil**	170.0	65½–15⅛	43⅜	33.30	1.3	4.92	9	2.00	4.6
245	154	**Wyman-Gordon**	170.0	37¼–11	33¾	15.01	2.2	2.16	16	0.80	2.4
246	199	**Times Mirror**	169.8	88 –28	80¼	28.92	2.8	5.00	16	2.00	2.5
247	175	**Deluxe Check Printers**	168.3	47⅜–12	40¼	11.23	3.6	3.24	12	1.36	3.4
248	328	**Arkla**	168.2	29⅞– 7¾	21⅜	9.64	2.2	1.56	14	1.04	4.9
249	165	**Control Data**	168.1	64⅜–14½	46¼	46.10	1.0	4.05	11	0.60	1.3
250	467	**Alexander's**	168.0	18⅜– 5⅛	16¾	14.14	1.2	1.03	16	none	0.0
251	751	**Harris Bankcorp**	167.0	73½–20⅝	70¾	57.72	1.2	5.00	14	2.32	3.3
252	377	**Alexander & Baldwin**	165.7	46¼–16¼	45½	39.22	1.2	5.30	9	2.00	4.4

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Index was 54.9%.

*Not ranked last year. NM: not meaningful. def: deficit.

Who's where in the stock market

Rank		Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
83	82										
253	180	Alco Standard	164.6%	40¼–11⅜	31¾	$18.85	1.7	$2.70	12	$1.16	3.7%
254	198	Baxter Travenol Labs	164.0	31⅝– 8⅞	27⅛	7.52	3.6	1.51	18	0.28	1.0
255	213	Melville	162.6	47⅝–11⅞	34⅝	13.47	2.6	2.91	12	1.09	3.1
256	144	Cabot	162.2	36⅝–10¼	26⅞	20.20	1.3	2.00	13	0.92	3.4
257	307	Colt Industries	161.9	50½–17	47⅝	18.51	2.6	3.26	15	2.20	4.6
258	247	United Virginia Bshs	161.5	31⅞–10½	29¾	23.85	1.2	4.20	7	1.28	4.3
259	99	Hilton Hotels	161.5	60¼–22	58½	21.31	2.7	3.96	15	1.80	3.1
260	592	DeSoto	160.4	37⅛–10	29⅝	21.31	1.4	2.97	10	1.24	4.2
261	96	Whittaker	159.8	50⅞–11⅜	29⅞	22.86	1.3	2.22	13	1.60	5.4
262	666	Reichhold Chemicals	159.6	38⅞– 9⅝	30½	24.32	1.3	2.03	15	0.60	2.0
263	304	H J Heinz	159.4	36¼–11⅝	34⅜	15.77	2.2	3.09	11	1.40	4.1
264	609	American Family	159.0	20¼– 5⅞	19⅜	11.17	1.7	1.53	13	0.60	3.1
265	353	Monfort of Colorado	158.7	21⅛– 3⅜	14⅞	11.36	1.3	3.48	4	none	0.0
266	504	Witco Chemical	158.4	35⅞–13⅜	35¾	20.72	1.7	3.11	11	1.32	3.7
267	150	Superior Oil	158.4	50¼–12¼	34	18.12	1.9	1.63	21	0.20	0.6
268	300	Consol Freightways	157.3	59⅛–18	57⅛	36.97	1.5	4.61	12	1.80	3.1
269	139	Centex	157.1	33⅛–11½	30	18.27	1.6	2.48	12	0.25	0.8
270	192	Bankers Trust NY	156.4	49½–16½	42⅝	49.86	0.9	7.90	5	2.25	5.3
271	386	Southland	155.8	48¼–11¼	43	19.48	2.2	3.39	13	0.84	2.0
272	202	American General	155.8	24⅛– 8⅜	23⅛	19.25	1.2	2.86	8	0.80	3.5
273	315	Cluett, Peabody	155.2	32¼– 7¼	27¾	24.03	1.2	2.83	10	0.92	3.3
274	489	White Consolidated	154.8	45⅜–17	43	36.09	1.2	3.06	14	1.50	3.5
275	317	Quaker Oats	154.6	60¾–22	58¼	31.94	1.8	3.03	19	2.20	3.8
276	833	Zenith Radio	153.4	34½– 7⅞	32⅝	14.42	2.3	0.85	38	none	0.0
277	147	Shawmut	153.4	40½–14⅝	37⅜	43.95	0.9	4.67	8	1.92	5.1
278	257	Harvey Hubbell	153.1	37¼–12⅛	30⅝	17.69	1.7	2.48	12	1.24	4.1
279	269	Thrifty Corp	152.6	25¼– 4⅛	18	6.14	2.9	1.13	16	0.46	2.6
280	342	Dorchester Gas	152.4	29⅝– 5⅜	13⅛	7.96	1.7	1.01	13	0.16	1.2
281	168	Springs Industries	151.7	45 –12¾	37⅛	44.94	0.8	3.60	10	1.52	4.1
282	248	City Investing	150.5	39⅝–13⅛	34⅛	30.81	1.1	2.98	11	1.80	5.3
283	45	Tyson Foods	148.9	17¾– 3⅜	14	7.19	1.9	1.64	9	0.08	0.6
284	303	Bristol-Myers	148.3	47⅞–15⅜	44⅜	12.60	3.5	2.89	15	1.20	2.7
285	[illegible]	BanCal Tri-State	148.0	47½–14¾	45⅞	40.67	1.1	5.55	8	1.20	2.6
286	[illegible]	Jonathan Logan	147.9	26½– 4⅜	19⅝	18.21	1.1	2.42	8	0.54	2.8
287	333	Whirlpool	147.7	57 –14⅝	47⅜	24.02	2.0	4.64	10	2.00	4.2
288	104	Std Comml Tobacco	146.9	27¼– 9⅞	20	22.15	0.9	3.07	7	0.44	2.2
289	57	Cullum Companies	146.8	20⅛– 5¾	15	10.47	1.4	1.66	9	0.56	3.7
290	117	Freeport-McMoran	146.7	40⅝– 7¾	19⅝	10.53	1.9	1.31	15	0.60	3.1
291	224	Amer Hospital Supply	145.7	49 –15¾	43	16.58	2.6	3.01	14	1.00	2.3
292	536	Amer Maize-Products	144.9	20⅞– 6½	17¼	21.52	0.8	0.68	25	0.52	3.0
293	738	Hoover	144.6	25⅞– 8⅜	25⅜	13.93	1.8	1.77	14	1.00	3.9
294	193	Pfizer	143.9	44¾–14½	40¼	12.82	3.1	2.59	16	1.16	2.9
295	214	Western Co No Amer	143.8	32⅛– 3⅞	9¾	8.70	1.1	–0.25	def	none	0.0
296	417	Allied Stores	143.7	56½–18¾	53	41.68	1.3	5.75	9	2.00	3.8
297	223	Knight-Ridder News	143.1	30½– 9⅝	27½	11.71	2.3	1.73	16	0.64	2.3
298	212	Raychem	142.8	93 –32½	79½	30.04	2.6	3.15	25	0.44	0.6
299	160	Northrop	142.6	98¼–27¾	86⅛	32.60	2.6	4.83	18	1.80	2.1
300	184	Levi Strauss	142.3	56 –17⅛	42⅛	23.37	1.8	4.49	9	1.85	4.4
301	*	Fremont General	142.0	33⅞– 5½	15⅞	11.78	1.3	–0.07	def	0.48	3.0
302	480	Ethyl	141.9	29⅝– 9⅛	26	19.47	1.3	2.43	11	0.85	3.3
303	519	IU International	141.6‡	30⅝– 9⅝	26⅞	13.94	1.9	1.83	15	1.15	4.3
304	201	Federal-Mogul	141.5	34⅜–12½	32	19.51	1.6	2.77	12	1.40	4.4
305	407	Clorox	140.7	36½– 7⅞	25⅞	13.48	1.9	2.92	9	1.04	4.0
306	245	Jewel Cos	140.4	54⅝–19⅞	48⅜	40.08	1.2	6.56	7	2.60	5.4
307	376	Sun Chemical	140.0	32 –12⅛	29¼	22.09	1.3	2.08	14	0.48	1.6
308	380	Security Pacific	139.8	58½–18½	50⅝	44.24	1.1	7.21	7	2.24	4.4
309	383	McDonald's	139.6	74½–24⅛	73⅞	25.51	2.9	5.53	13	1.00	1.4
310	635	Robertshaw Controls	139.5	30 – 9¾	29⅝	20.26	1.4	2.38	12	0.93	3.2
311	348	Gulf & Western Inds	138.9	30⅛–10⅞	27	24.52	1.1	–2.86	def	0.90	3.3
312	189	Newmont Mining	138.4	79¼–21½	51¼	47.81	1.1	2.32	22	1.00	2.0
313	291	Lear Siegler	137.5	47¼–17¼	42¾	27.70	1.5	4.02	11	1.60	3.7
314	225	Bank of New England	137.3	66¼–17½	47¾	49.90	1.0	7.97	6	2.60	5.4
315	272	Signal Cos	137.2	38¾–13⅛	31⅜	23.52	1.3	0.79	40	0.90	2.8

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Index was 54.9%.

*Not ranked last year. ‡Four-year price change. def: deficit.

Who's where in the stock market

Rank		Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
83	82										
316	389	**PACCAR**	136.9%	55 –18⅞	54⅜	$32.22	1.7	$1.70	32	$1.20	2.2%
317	382	**General Electric**	135.5	57¾–22	55½	22.38	2.5	4.33	13	2.00	3.6
318	704	**Cummins Engine**	135.3	78¾–25⅞	78¼	58.18	1.3	–2.62	def	2.00	2.6
319	235	**George A Hormel**	134.7	31½–12¼	28¾	25.56	1.1	2.54	11	1.00	3.5
320	163	**Western Union**	133.6	54¼–15⅛	35⅝	34.88	1.0	3.17	11	1.40	3.9
321	230	**Auto Data Processing**	133.2	44½–14⅜	34¼	12.04	2.8	1.91	18	0.56	1.6
322	434	**Combined Internatl**	132.9	42½–16⅛	41⅜	21.12	2.0	3.45	12	2.00	4.8
323	413	**Dennison Mfg**	132.5	39 –15⅛	34⅞	19.76	1.8	2.61	13	1.60	4.6
324	305	**Heck's**	132.5	19⅝– 6½	15½	11.58	1.3	0.73	21	0.28	1.8
325	430	**LTV**	132.1†	26⅛– 6⅜	15⅜	22.03	0.7	–5.22	def	0.25	1.6
326	341	**American Express**	131.8	49⅝–12⅝	33¾	15.97	2.1	3.45	10	1.28	3.8
327	403	**Gulf United**	130.8	30¼–12⅞	30	22.96	1.3	3.23	9	NM	—
328	412	**Hercules**	130.5	43⅛–15⅛	37¾	24.18	1.6	2.75	14	1.44	3.8
329	416	**Kimberly-Clark**	130.3	99 –37¾	94⅛	62.97	1.5	7.54	12	4.20	4.5
330	922	**Yellow Freight System**	129.5	46⅛–10⅞	44¾	15.53	2.9	2.61	17	0.92	2.1
331	265	**Nalco Chemical**	129.0	37 –13⅛	30⅝	8.47	3.6	1.56	20	1.20	3.9
332	301	**Mercantile Texas**	128.0	36⅝–12⅜	28½	22.26	1.3	4.24	7	1.28	4.5
333	277	**Texas Commerce Bshs**	127.7	46⅝–17⅞	41⅛	27.30	1.5	5.49	7	1.42	3.5
334	518	**Monsanto**	127.7	116⅝–42¼	107	85.96	1.2	7.92	14	4.20	3.9
335	456	**May Dept Stores**	126.5	63 –18	53½	35.82	1.5	5.85	9	2.00	3.7
336	289	**Ryan Homes**	126.4	50 –12	36½	16.35	2.2	2.47	15	1.00	2.7
337	913	**Kaiser Steel**	126.0	50¾–13¾	41¼	35.20	1.2	–1.10	def	none	0.0
338	135	**American Intl Group**	125.8	77¾–25½	61⅛	31.38	1.9	5.97	10	0.44	0.7
339	379	**Illinois Tool Works**	125.4	55½–20¼	55½	24.52	2.3	3.85	14	1.16	2.1
340	650	**Gerber Products**	125.4	42¾–11⅞	40	21.12	1.9	3.33	12	1.48	3.7
341	79	**Marsh Supermarkets**	125.0	20⅝– 4⅛	13½	11.88	1.1	1.12	12	0.48	3.6
341	792	**Pay'n Save**	125.0	27⅝– 8¼	25⅞	14.32	1.8	1.90	14	0.56	2.2
341	419	**Wheeling-Pitts Steel**	125.0	40⅛–10⅝	23⅜	80.50	0.3	–23.53	def	none	0.0
344	641	**Ralston Purina**	124.2	27¼– 9¼	25½	10.84	2.4	2.58	10	0.84	3.3
345	162	**Handy & Harman**	123.6	34½– 7⅞	17¾	9.12	1.9	0.62	29	0.60	3.4
346	*	**Sun Banks**	123.3	29½–10¾	28¾	20.01	1.4	2.92	10	1.20	4.2
347	234	**Bank of Boston**	123.0	47⅝–16½	40⅞	48.70	0.8	7.65	5	2.32	5.7
348	262	**American Brands**	122.6	58¼–23⅞	56⅛	34.70	1.6	6.75	8	3.60	6.4
349	308	**Malone & Hyde**	122.8	33 –10⅞	31¾	12.18	2.6	2.21	14	0.84	2.6
350	216	**Vulcan Materials**	122.7	70 –28	63¾	37.54	1.7	3.83	17	2.44	3.8
351	362	**Alcan Aluminium**	122.1	41⅝–15⅞	37⅝	29.48	1.3	0.20	NM	0.90	2.4
352	612	**Eaton**	121.2	52⅞–20¼	51¼	27.40	1.9	0.56	NM	0.80	1.6
353	*	**Midlantic Banks**	120.8	42½–15	39⅝	37.42	1.1	8.02	5	2.00	5.1
354	436	**Trane**	120.7	43¾–16¼	42¾	27.32	1.6	2.49	17	1.36	3.2
355	385	**Gordon Jewelry**	120.6	30 –11¼	28⅛	25.62	1.1	2.35	12	0.56	2.0
356	366	**American Petrofina**	119.8	71⅞–24	55½	52.01	1.1	4.31	13	3.20	5.8
357	597	**A E Staley Mfg**	119.4	42½–11⅛	24½	23.19	1.1	0.31	NM	0.80	3.3
358	632	**Genesco**	119.4	11⅛– 2¾	8½	4.09	2.1	–0.06	def	none	0.0
359	566	**Avondale Mills**	119.3	46 –13⅜	39⅝	41.13	1.0	5.02	8	1.40	3.5
360	280	**NCR**	119.0	135¼–38¾	132½	72.41	1.8	9.80	14	2.60	2.0
361	*	**CBT**	119.0	30½–12⅜	29½	31.34	0.9	4.76	6	1.64	5.6
362	390	**Universal Leaf**	118.8	42¼–15½	37⅝	24.71	1.5	4.22	9	1.76	4.7
363	574	**InterNorth**	118.8	49¾–16⅞	37⅞	30.80	1.2	4.73	8	2.32	6.1
364	579	**Burlington Inds**	118.4	43 –14¾	37⅛	40.16	0.9	3.10	12	1.52	4.1
365	252	**Crown Central Petroleum**	118.4	43⅞– 8½	19¼	30.36	0.6	0.06	NM	0.80	4.2
366	318	**Standard Oil Ohio**	118.2	91½–20	46⅜	29.20	1.6	6.71	7	2.60	5.6
367	498	**Borden**	118.1	61 –19⅝	55⅝	46.97	1.2	6.23	9	2.44	4.4
368	206	**McKesson**	118.0	51 –17⅞	40⅞	29.38	1.4	3.76	11	2.40	5.9
369	296	**Insilco**	116.7	25½– 8⅛	18⅛	13.85	1.3	1.85	10	1.00	5.5
370	458	**King Kullen Grocery**	116.3	32 –11	26½	40.05	0.7	4.45	6	0.50	1.9
371	396	**National Gypsum**	116.1	35⅞–15¾	33½	29.66	1.1	2.31	15	1.56	4.7
372	259	**Gannett**	115.8	48 –17⅜	39⅛	11.65	3.4	2.33	17	1.28	3.3
373	143	**Kroger**	115.4	47¼–14	38⅜	29.72	1.3	3.51	11	2.00	5.2
374	281	**CNA Financial**	115.0	22⅞–10⅛	21½	20.83	1.0	3.07	7	none	0.0
375	371	**Reading & Bates**	115.0	39⅞– 5⅞	12½	15.24	0.8	1.11	11	0.40	3.2
376	367	**Pueblo International**	114.7	11¾– 2¼	9⅛	10.55	0.9	0.80	11	0.16	1.8
377	532	**Scott Paper**	114.6	30⅛–13⅝	29½	31.04	1.0	1.93	15	1.00	3.4
378	179	**Figgie Intl Holdings**	114.5	26⅛– 8⅛	22¼	27.59	0.8	3.61	6	0.68	3.1

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Index was 54.9%.

*Not ranked last year. †Price change does not reflect the value of shares received in spinoff. NM: not meaningful. def: deficit.

Who's where in the stock market

Rank		Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
83	82										
379	537	Consolidated Edison	114.0%	25⅞– 9⅞	24¾	$25.95	1.0	$ 3.97	6	$1.88	7.6%
380	439	Maryland National	113.8	32¾– 12½	31	38.28	0.8	4.82	6	1.36	4.4
381	396	SONAT	113.4	39⅝– 15⅞	33⅞	28.07	1.2	5.26	6	1.55	4.6
382	381	Corestates Financial	113.1	35¾– 11¾	30½	33.44	0.9	5.51	6	1.86	6.1
383	411	Denny's	112.0	38¼– 7⅞	36¾	17.17	2.1	2.76	13	0.72	2.0
384	279	TRW	111.5	79 – 33⅛	76⅛	40.56	1.9	4.95	15	2.80	3.7
385	507	So New England Tel	111.3	40 – 13⅞	37½	27.07	1.4	3.90	10	2.52	6.7
386	343	Consolidated Foods	111.2	25⅜– 9⅞	24⅞	16.20	1.5	2.93	8	1.30	5.2
387	619	Maytag	110.9	56¾– 21½	48¼	14.30	3.4	3.93	12	2.95	6.1
388	270	Frederick & Herrud	110.5	9⅝– 4	8	8.91	0.9	1.74	5	none	0.0
389	762	Mohasco	110.3	25½– 7	22⅞	28.99	0.8	0.88	26	0.32	1.4
390	260	Sundstrand	110.2	59½– 21¾	46¼	26.72	1.7	2.49	19	1.80	3.9
391	296	Foster Wheeler	108.8	30½– 6⅞	14¾	10.40	1.4	1.48	10	0.44	3.0
391	409	R J Reynolds Inds	108.8	63⅝– 27	59⅛	42.33	1.4	6.81	9	3.20	5.4
393	535	U S Industries	107.9	18¾– 6⅞	16⅜	17.34	0.9	1.35	12	0.76	4.6
394	608	American Cyanamid	107.9	59 – 20⅝	52¾	31.81	1.7	3.09	17	1.75	3.3
395	338	Union Pacific	107.8	96¼– 25¾	53½	34.66	1.5	3.27	16	1.80	3.4
396	832	Arvin Industries	107.6	30¼– 9¾	27½	22.60	1.2	1.77	16	1.12	4.1
397	271	Unocal	107.5	56½– 13⅞	29½	27.33	1.1	3.88	8	1.00	3.4
398	418	Murphy Oil	107.0	64 – 13⅜	30⅜	24.60	1.2	4.00	8	1.00	3.3
399	414	Hammermill Paper	106.9	45¼– 18	45¼	44.17	1.0	1.92	24	1.84	4.1
400	84	Mission Insurance	106.6	41 – 13½	28	19.94	1.4	2.47	11	1.00	3.6
401	542	Westvaco	106.4	36¼– 16½	35¼	28.22	1.2	2.30	15	1.20	3.4
402	429	NCNB	106.3	29⅞– 10	24¾	21.95	1.1	3.68	7	1.12	4.5
403	563	J C Penney	106.2	67⅞– 19⅝	62⅝	43.95	1.4	5.54	11	2.16	3.4
404	723	Sears, Roebuck	105.7	45⅛– 14⅜	40⅜	25.08	1.6	3.33	12	1.52	3.7
405	530	Greyhound	105.7	28 – 11	22⅝	22.22	1.0	2.28	10	1.20	5.3
406	868	Singer	105.7	32½– 6¼	27¼	16.92	1.6	0.01	NM	0.10	0.4
407	613	Morse Shoe	105.7	39¾– 10	31⅞	20.28	1.6	3.05	10	0.60	1.9
408	488	ENSERCH	105.4	40 – 11⅜	23⅜	17.95	1.3	1.72	14	1.60	6.8
409	368	Old Republic Intl	105.1	34¼– 10¼	31	25.50	1.2	4.48	7	0.90	2.9
410	446	Fischbach	104.7	55⅛– 19¾	48⅝	45.17	1.1	7.66	6	2.65	5.4
411	684	Carson Pirie Scott	104.4	44¾– 12¾	35	33.59	1.0	3.94	9	1.20	3.4
412	238	Amerada Hess	104.1	54¾– 12⅜	28	30.53	0.9	2.27	12	1.10	3.9
413	75	Brown-Forman Dist	103.7	45⅛– 15½	34⅝	18.11	1.9	3.61	10	0.88	2.5
414	286	Safeco	103.2	60 – 27¾	56⅜	48.59	1.2	6.60	9	2.60	4.6
415	543	Sun Company	102.9	59⅝– 20⅞	43⅛	42.90	1.0	4.57	9	2.30	5.3
416	522	Zale	101.6	34 – 15	32¼	35.58	0.9	1.78	18	1.26	3.9
417	359	Goodyear	101.6	36⅞– 10⅜	32½	33.14	1.0	2.32	14	1.40	4.3
418	284	Worthington Inds	101.0	28⅞– 9⅜	24⅜	7.65	3.2	1.25	20	0.52	2.1
419	525	Hyster	100.4	65½– 28½	64⅝	51.56	1.3	0.03	NM	1.00	1.5
420	437	Zurn Industries	100.0	37⅜– 14⅛	29	24.08	1.2	2.92	10	1.32	4.6
421	484	Ex-Cell-O	99.8	44½– 16⅞	36⅝	29.06	1.3	3.37	11	1.60	4.4
422	879	Allied Corp	98.7	61¾– 28½	56⅛	58.00	1.0	5.21	11	2.40	4.3
423	420	Wendy's International	98.5	20⅞– 3¾	19⅝	6.50	3.0	1.27	15	0.32	1.6
424	401	Kidde	98.3	37 – 13¾	28⅜	34.24	0.8	3.65	8	1.10	3.8
425	358	ASARCO	98.2	58½– 13⅜	27½	36.22	0.8	0.80	34	0.40	1.5
426	511	Chubb	98.1	68⅜– 29¾	64⅜	58.90	1.1	7.67	8	3.12	4.8
427	651	Houston Natural Gas	97.7	63¼– 21⅜	43¾	30.85	1.4	4.66	9	1.82	4.2
428	130	Charter	97.6	50 – 5	10⅜	24.90	0.4	0.83	12	1.00	9.9
429	451	Bemis	97.5	43½– 19⅝	39½	47.44	0.8	2.83	14	1.60	4.1
429	570	North American Coal	97.5	49¼– 19⅛	39½	27.67	1.4	6.40	6	0.90	2.3
431	352	Combustion Eng	96.9	54¼– 16¼	32⅛	25.96	1.2	3.54	9	1.84	5.7
432	*	American District	96.9	32⅝– 7¼	23⅝	15.70	1.5	2.15	11	0.92	3.9
433	528	Allegheny Intl	96.6	55⅜– 14¾	28¾	36.17	0.8	–4.27	def	1.40	4.9
434	680	Allen Group	96.3	23¾– 11¼	22¼	13.98	1.6	–0.13	def	0.40	1.8
435	692	Pillsbury	96.3	37⅛– 13⅜	36⅜	22.10	1.6	3.40	11	1.40	3.9
436	321	Philip Morris	95.7	71 – 29⅛	69	29.09	2.4	6.88	10	2.90	[illegible]
437	824	Great Atl & Pac Tea	95.7	14¼– 3½	11¼	8.81	1.3	0.70	16	none	[illegible]
438	196	Fairchild Industries	95.6	33⅞– 10¼	21⅛	21.53	1.0	1.32	16	0.80	[illegible]
439	415	Travelers	95.6	34¼– 16½	33¼	35.37	0.9	3.97	8	1.80	5.4
440	297	Texas American Bshs	95.3	45¾– 15⅞	35½	31.96	1.1	4.13	9	1.52	4.3
441	326	Central Steel & Wire	94.4	375 –180	350	412.38	0.8	42.58	8	20.00	5.7

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Inde was 54.9%.

*Not ranked last year. NM: not meaningful. def: deficit.

Who's where in the stock market

Rank												
83	82	Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
442	430	SCM	94.1%	39½–16⅝	33	$52.69	0.6	$1.59	21	$2.00	6.1%
443	544	New England Electric	93.5	43⅜–17¼	41⅛	29.85	1.4	5.46	8	3.40	8.3
444	577	Union Carbide	93.4	73⅞–34	65¾	73.54	0.9	3.13	21	3.40	5.2
445	242	United States Gypsum	92.3	57⅞–25¾	50¼	41.59	1.2	4.02	13	2.60	5.2
446	313	McCormick	92.2	35⅞–13½	27⅞	15.09	1.8	2.43	11	0.88	3.2
447	567	First Natl State Bcp	92.1	41½–15⅞	38⅞	42.08	0.9	7.00	6	2.64	6.8
448	670	Getty Oil	92.1	108¼–35½	72½	64.46	1.1	5.36	14	2.60	3.6
448	610	Torchmark	92.1	43 –16⅝	42¼	34.37	1.2	4.68	9	1.60	3.8
450	699	Celanese	91.9	79¾–39⅝	77	66.83	1.2	2.04	38	4.00	5.2
451	540	F W Woolworth	91.6	39⅝–15⅞	37⅛	31.57	1.2	4.46	8	1.80	4.8
452	657	Household Intl	91.4	34 –13⅝	33½	25.89	1.3	3.50	10	1.70	5.1
453	209	Raytheon	91.4	57½–21⅛	44½	20.28	2.2	3.52	13	1.40	3.1
454	555	Carnation	91.4	52¾–21	50	30.23	1.7	5.32	9	2.20	4.4
455	549	Parker-Hannifin	91.3	31⅞–14⅞	31¼	17.83	1.8	1.41	22	1.04	3.3
456	138	Perkin-Elmer	90.9	37½–13⅛	26¼	11.93	2.2	1.10	24	0.50	1.9
457	582	Intl Minerals & Chem	90.8	66½–23½	45	38.12	1.2	3.17	14	2.60	5.8
458	364	Earle M Jorgensen	90.8	31¾–13⅞	28⅜	25.45	1.1	0.90	32	1.00	3.5
459	504	First Natl Supermkts	90.6	24 – 3¾	15¼	16.25	0.9	2.70	6	0.25	1.6
460	331	Southeast Banking	89.9	27⅞–12⅛	23½	24.50	1.0	3.14	7	1.08	4.6
461	871	Kellwood	89.8	43¼– 8⅛	25⅝	25.84	1.0	3.87	7	0.80	3.1
462	405	Interpublic Group	89.6	62 –25½	50¾	27.55	1.8	4.55	11	1.80	3.5
463	702	Owens-Illinois	89.5	37 –17⅜	33⅞	49.87	0.7	1.30	26	1.68	5.0
464	276	Stanley Works	89.3	27 –11¼	22	14.50	1.5	1.63	13	0.76	3.5
465	587	American Natl Ins	88.9	22⅛–10⅛	21¼	27.80	0.8	3.20	7	0.96	4.5
465	357	Gillette	88.9	51½–17⅝	48⅞	23.70	2.1	4.67	10	2.44	5.0
467	285	Tesoro Petroleum	88.5	32¼– 7¾	14⅝	23.67	0.6	3.05	5	0.40	2.8
467	560	USF&G	88.5	58⅞–30⅝	57½	48.57	1.2	5.70	10	3.84	6.7
469	428	Petrolane	88.3	26⅝– 7½	14⅛	9.83	1.4	–0.66	def	0.50	3.5
470	603	Interco	88.2	85 –35½	67¾	62.36	1.1	5.73	12	2.88	4.3
471	346	Delta Air Lines	88.0	51 –15⅝	39¼	22.56	1.7	–1.51	def	0.60	1.5
472	538	General Signal	87.9	54¼–25	50½	28.66	1.8	2.94	17	1.68	3.3
473	851	Mountain Fuel Supply	87.4	34¼–12⅜	28	17.49	1.6	3.32	8	1.44	5.1
474	410	General Mills	87.3	57¾–19	55½	25.68	2.2	5.21	11	2.04	3.7
475	421	Bank of New York	87.2	33⅛–13½	31	34.58	0.9	5.60	6	1.84	5.9
476	256	Honeywell	87.1	134 –59½	130	94.31	1.4	9.99	13	3.60	2.8
477	946	Raymond Intl	86.4	36 – 9⅜	27½	24.46	1.1	2.41	11	none	0.0
478	241	Kemper	86.4	51⅝–19⅞	37¾	48.81	0.8	4.64	8	1.80	4.8
479	802	Continental Group	86.1	52 –25⅛	50¼	51.38	1.0	4.88	10	2.60	5.2
480	595	Armstrong World Inds	86.1	33¾–12⅜	30	23.71	1.3	2.15	14	1.10	3.7
481	617	United Brands	84.8	27⅛– 6½	18¼	16.50	1.1	–9.50	def	none	0.0
482	250	Kaufman & Broad	84.7	25¼– 6½	16⅝	11.80	1.4	0.10	NM	0.40	2.4
483	803	Anchor Hocking	84.4	34½–13⅜	31½	31.01	1.0	–0.46	def	1.36	4.3
484	718	Gulf Resources & Chem	84.3	37⅞– 8⅝	16⅛	9.39	1.7	1.11	15	none	0.0
485	578	Walter E Heller Intl	84.1	34 –13⅝	30⅝	28.33	1.1	–1.12	def	NM	—
486	478	American Home Products	84.0	54¼–21⅜	51¾	11.19	4.6	3.88	13	2.40	4.6
486	468	Sterling Drug	84.0	29⅝–15¾	28¾	14.16	2.0	2.18	13	1.12	3.9
488	170	Trans World	83.6	36⅞– 9⅝	32⅛	28.44	1.1	–1.42	def	none	0.0
489	688	Alcoa	83.3	47¾–21⅞	43¾	38.60	1.1	–0.04	def	1.20	2.7
490	383	Winn-Dixie Stores	83.0	37⅝–14¼	32¼	14.74	2.2	2.68	12	1.56	4.8
491	842	Easco	82.8	23½– 9⅛	20⅞	16.45	1.3	1.48	14	0.88	4.2
492	243	MCA	82.5	42⅛–18⅝	37⅞	21.44	1.8	3.36	11	0.88	2.3
493	619	Panhandle Eastern	82.5	52¼–20	36½	34.80	1.0	3.50	10	2.30	6.3
494	187	Seaway Food Town	82.5	14½– 6¼	13	16.54	0.8	1.58	8	0.68	5.2
495	407	W W Grainger	81.5	63¼–25	59	26.11	2.3	3.49	17	1.20	2.0
496	625	Square D	81.4	40 –17⅝	36½	17.32	2.1	2.16	17	1.84	5.0
497	306	Snap-On Tools	80.8	33 –16½	33	11.49	2.9	1.88	18	0.88	2.7
498	720	Gulf Oil	80.8	54½–23	42¼	57.27	0.7	5.33	8	3.00	7.1
499	541	Air Prods & Chems	80.4	54¼–23⅜	42⅜	30.97	1.4	3.55	12	1.00	2.3
500	550	FMC	80.4	47¼–21⅜	43¾	39.15	1.1	4.73	9	1.80	4.1
501	681	Harcourt Brace Jovan	80.3	29¼–12½	28⅝	18.24	1.6	2.78	10	1.00	3.5
502	611	Lincoln National	80.1	64⅜–32¾	64⅜	65.30	1.0	6.92	9	3.36	5.2
503	369	Johnson & Johnson	80.0	51½–21⅝	44¼	14.80	3.0	2.65	17	1.10	2.5
504	494	B F Goodrich	79.9	43⅞–16⅜	31¼	51.20	0.6	–0.82	def	1.56	5.0

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Index was 54.9%.

*NM: not meaningful. def: deficit.

Who's where in the stock market

Rank 83	Rank 82	Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
505	534	McDonnell Douglas	79.7%	62¾–20	59¾	$47.24	1.3	$6.38	9	$1.42	2.4%
506	638	Federated Dept Stores	79.7	69 –21¼	57½	43.44	1.3	6.34	9	2.20	3.8
507	800	Firestone	79.4	23 – 6⅛	21¾	25.10	0.9	1.82	12	0.60	2.8
508	637	First Wisconsin	79.4	24⅛– 9⅞	20⅝	29.37	0.7	3.77	5	1.10	5.3
509	656	Texas Eastern	79.0	89 –33⅝	60⅝	52.52	1.2	5.33	11	4.10	6.8
510	596	IC Industries	78.9	49 –17⅛	43⅜	63.21	0.7	2.89	15	2.36	5.4
511	476	Irving Bank	78.7	58 –28½	51⅜	78.14	0.7	9.60	5	3.52	6.9
512	294	Squibb	78.6	55⅝–24⅜	50	21.29	2.3	3.20	16	1.44	2.9
513	776	Williams Cos	78.3	49⅞–12⅜	26¾	34.58	0.8	0.83	32	1.20	4.5
514	354	Schlumberger	78.1	87⅛–27½	50	17.89	2.8	3.89	13	1.04	2.1
515	725	Interlake	77.7	45 –22⅜	40⅞	56.63	0.7	2.03	20	2.60	6.4
516	594	Blue Bell	77.7	40 –20⅛	36⅞	33.75	1.1	3.73	10	1.80	4.9
517	332	Ohio Casualty	77.6	56⅛–26¾	47½	43.76	1.1	5.39	9	2.52	5.3
518	721	Allegheny Power	77.4	27¾–12⅛	27½	22.64	1.2	3.49	8	2.60	9.5
519	398	Emerson Electric	77.2	67½–29⅛	63⅛	22.73	2.8	4.42	14	2.30	3.6
520	575	Cyclops	77.0	39 –13⅝	31⅛	47.28	0.7	–3.47	def	1.10	3.5
521	438	Dexter	76.7	29⅛–11	22	11.00	2.0	1.79	12	0.72	3.3
522	462	Chemical New York	76.6	56⅛–22⅛	44	61.08	0.7	8.49	5	3.24	7.4
523	784	Nash Finch	75.9	22 – 8	17	17.11	1.0	2.29	7	0.92	5.4
524	470	First Interstate Bancp	75.7	47 –23¼	42⅜	43.85	1.0	5.58	8	2.24	5.3
525	330	RepublicBank	75.5	38¼–17¼	34	31.23	1.1	5.24	6	1.64	4.8
526	474	Tyler	75.4	31½–10½	28½	16.91	1.7	1.64	17	0.65	2.3
527	516	Rollins	75.3	22½– 7⅞	16	8.57	1.9	0.16	NM	0.70	4.4
528	520	Gt Northern Nekoosa	75.3	36 –18½	35½	32.95	1.1	2.87	12	1.40	3.9
529	783	Consol Natural Gas	75.0	34⅛–18	33¼	28.75	1.2	4.38	8	2.00	6.0
530	514	W R Grace	74.9	63½–25⅝	45¼	45.43	1.0	3.21	14	2.80	6.2
531	378	Leaseway Transportation	74.7	47⅝–18¾	38⅞	22.66	1.7	2.77	14	1.50	3.9
532	347	Valero Energy	74.5‡	43⅞–10⅛	20½	16.93	1.2	2.32	9	0.44	2.1
533	481	Transamerica	74.4	31½–14⅝	29	26.71	1.1	3.35	9	1.56	5.4
534	646	Hoover Universal	73.7	26½–10½	25⅝	12.91	2.0	2.22	12	0.92	3.6
535	309	Consolidated Papers	73.6	48 –23¼	46	30.95	1.5	4.32	11	2.20	4.8
536	465	Standard Oil Indiana	73.5	99½–26¾	49⅛	39.11	1.3	6.24	8	2.80	5.7
537	181	Pacific Resources	72.9	15¾– 6⅜	10¾	7.19	1.5	0.55	19	none	0.0
538	733	Libbey-Owens-Ford	72.8	43¾–19⅝	41¼	37.82	1.1	1.83	23	1.20	2.9
539	598	Transco Energy	72.3	64¼–19	35¾	32.09	1.1	4.62	8	1.92	5.4
540	355	Chesebrough-Pond's	72.2	47¼–19⅛	38¾	17.41	2.2	3.35	12	1.84	4.7
541	847	Southern Union	71.4	34⅛–13	22	21.33	1.0	2.15	10	1.64	7.5
542	423	Farmers Group	71.2	49⅛–21⅛	40⅞	24.08	1.7	3.95	10	1.36	3.3
543	473	United Technologies	71.1	76¾–31¼	66½	51.69	1.3	7.60	9	2.60	3.9
544	614	Campbell Soup	71.0	60¼–25¼	58⅛	35.64	1.6	5.24	11	2.30	4.0
545	553	Intl Multifoods	70.8	36⅝–13¼	30¾	26.70	1.2	4.06	8	1.76	5.7
546	816	K mart	70.6	39¼–15⅛	38⅜	20.89	1.8	3.17	12	1.08	2.8
547	586	Tektronix	70.5	86¾–34	80¾	34.72	2.3	2.65	30	1.00	1.2
548	*	NIKE	70.2‡‡	28 – 8⅝	17⅞	6.46	2.8	1.55	12	none	0.0
549	278	Rohr Industries	70.2	33⅛– 8	28½	19.76	1.4	3.68	8	none	0.0
550	547	Palm Beach	69.9	36⅜–13	28⅞	22.43	1.3	3.07	9	1.20	4.2
551	554	American Standard	69.8	43¾–17	35⅛	22.18	1.6	1.88	19	1.60	4.6
552	502	Parker Pen	69.6	26 –10⅞	19½	8.14	2.4	–0.27	def	0.52	2.7
553	351	United Merch & Mfrs	69.5	14⅞– 3½	12½	19.34	0.6	–0.70	def	none	0.0
554	863	Fruehauf	69.4	48¼–15⅛	44⅛	38.85	1.1	–1.62	def	0.40	0.9
555	513	Amfac	69.1	35⅞–16⅝	28¾	31.77	0.9	–2.23	def	1.44	5.0
556	558	Harsco	69.0	25 –14	24½	20.36	1.2	1.44	17	1.20	4.9
557	695	Barnes Group	68.4	26⅛–11⅛	24	17.19	1.4	–1.49	def	0.60	2.5
558	527	Brooklyn Union Gas	67.8	33¼–18¾	31⅞	28.78	1.1	4.52	7	2.90	9.1
559	629	Wetterau	67.5	22¾– 9⅜	19½	13.58	1.4	1.98	10	0.80	4.1
560	399	Genuine Parts	67.4	48⅜–18¾	43⅜	16.10	2.7	2.83	15	1.38	3.2
561	711	Kellogg	67.4	31¼–15⅝	30¾	11.57	2.7	3.19	10	1.68	5.5
562	781	Diversified Energies	67.3	36½–17⅛	32	29.97	1.1	4.49	7	2.40	7.5
563	475	Mobil	67.2	44⅞–17	29	36.30	0.8	3.29	9	2.00	6.9
564	456	Skyline	67.1	30¾– 8½	17⅛	10.40	1.6	0.71	24	0.48	2.8
565	395	Texas Instruments	67.0	176 –70½	133⅝	57.53	2.3	–7.56	def	2.00	1.5
566	477	Southwest Bancshares	66.8	33⅝–13¾	27¼	24.99	1.1	2.91	9	1.44	5.3
567	649	IBM	66.8	134¼–48⅜	124½	33.13	3.8	8.48	15	3.80	3.1

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Index was 54.9%.

*Not ranked last year. ‡Three-year price change. ‡‡Four-year price change. NM: not meaningful. def: deficit.

Who's where in the stock market

Rank											
83	82	Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
568	726	Stanadyne	66.7%	46¼–19¼	37½	$30.74	1.2	$ 3.52	11	$1.80	4.8%
569	602	Scott & Fetzer	66.2	49⅞–17¼	43	29.40	1.5	4.53	9	1.80	4.2
570	811	ACF Industries	65.9	52⅜–27½	51	45.68	1.1	0.11	NM	1.40	2.7
571	672	Johnson Controls	65.8	47½–17½	41⅞	27.21	1.5	4.17	10	1.66	4.0
572	404	American Motors	65.8	11¼– 2⅜	7⅞	2.06	3.8	–2.35	def	none	0.0
573	788	Transway Intl	65.7	36¾–19¼	35	28.10	1.2	2.01	17	1.80	5.1
574	425	Carpenter Technology	65.4	53 –24¾	44¼	33.30	1.3	2.21	20	2.10	4.7
575	928	A O Smith	65.4	23¾– 4⅞	20⅛	26.35	0.8	0.57	35	0.05	0.2
576	841	Foodarama Supermkts	64.6	10⅜– 3	9⅞	16.35	0.6	0.62	16	none	0.0
577	772	Royal Crown Cos	64.5	29 –10⅝	24⅞	14.17	1.8	2.00	12	1.04	4.2
578	388	Longs Drug Stores	64.4	50⅛–22¼	44⅜	18.77	2.4	3.28	14	1.12	2.5
579	593	GTE	64.3	48⅜–23	46⅝	31.57	1.5	4.92	9	3.00	6.4
580	501	H F Ahmanson	64.1	40½– 8	29¾	30.00	1.0	3.77	8	1.20	4.0
580	671	Laclede Gas	64.1	30 –14⅞	29¾	31.44	0.9	3.85	8	3.00	10.1
582	443	Northwest Airlines	64.0	55½–20⅜	46¾	37.85	1.2	1.59	29	0.80	1.7
583	*	PSA	63.7	42½–10⅛	22¾	36.49	0.6	–4.52	def	0.60	2.6
584	393	Valley National	63.6	30¾–13⅛	24	24.37	1.0	2.90	8	1.16	4.8
585	293	Federal Paper Board	63.6	39¼–17¾	37⅝	25.52	1.5	1.09	35	1.20	3.2
586	557	Moore Corp	63.3	51½–25½	44½	25.18	1.8	3.41	13	2.00	4.5
587	323	St Paul Cos	63.2	70¾–31	54¼	61.43	0.9	7.60	7	2.80	5.2
588	463	Mellon National	63.1	56½–22	42	54.19	0.8	7.05	6	2.44	5.8
589	663	Wisconsin Public Svc	61.8	30½–13⅜	29⅛	23.72	1.2	3.93	7	2.32	8.0
590	526	Jack Eckerd	61.3	34⅞–12½	28⅝	15.17	1.9	1.91	15	0.96	3.4
591	345	Amer Broadcasting	61.1	69¾–25⅝	56⅜	37.87	1.5	5.18	11	1.60	2.8
592	298	NL Industries	61.0	48⅝–10	16½	18.63	0.9	–1.77	def	1.00	6.1
593	497	Olin	61.0	34 –12½	29⅝	34.06	0.9	2.36	12	1.32	4.5
594	654	Eastern Gas & Fuel	60.8	32½–14⅛	24⅛	23.00	1.0	1.77	14	1.30	5.4
595	249	Louisiana-Pacific	60.8	36½–13½	26	21.98	1.2	0.60	43	0.80	3.1
596	771	No States Power	60.6	40¾–18	37¾	31.23	1.2	5.47	7	2.96	7.8
597	580	Pacific Lighting	60.6	36 –17	34⅛	33.20	1.0	5.20	7	3.16	9.3
598	439	CPC International	60.4	44⅞–24⅛	39½	26.96	1.5	4.34	9	2.20	5.6
599	*	CSX	60.2‡‡	26 –12⅛	25½	26.70	1.0	1.09	23	1.04	4.1
600	569	Union Camp	60.0	81½–36¾	76⅜	46.79	1.6	5.01	15	3.00	3.9
601	496	Capital Holding	59.9	38¾–16	34⅜	30.56	1.1	4.29	8	1.40	4.1
602	590	Florida Power & Lt	59.3	41⅞–19⅞	41⅝	38.20	1.1	5.31	8	3.60	8.6
603	361	Marine Midland Banks	59.2	30¾–11¾	23⅞	46.01	0.5	4.92	5	1.40	5.9
604	392	Fluor	59.0	71 –10¾	17⅝	22.68	0.8	1.28	14	0.80	4.5
605	660	Joy Manufacturing	58.8	42⅞–17½	29⅝	26.74	1.1	0.15	NM	1.40	4.8
606	686	Potomac Elec Power	58.7	22 –10	21⅝	17.95	1.2	2.63	8	1.78	8.2
607	662	Kansas Power & Light	58.6	30½–14½	30⅛	25.10	1.2	4.13	7	2.56	8.5
607	716	Rainier Bancorp	58.6	38⅝–17⅜	38¼	37.53	1.0	4.55	8	1.60	4.2
609	796	Intl Tel & Tel	58.3	47¾–22⅜	42¾	41.16	1.0	4.17	10	2.76	6.5
610	643	Continental Telecom	58.3	25⅞–12⅝	22¾	16.68	1.4	2.38	10	1.64	7.2
611	628	Southern Calif Edison	58.3	42¾–20	40¾	34.78	1.2	6.09	7	3.80	9.3
612	786	Adolph Coors	58.0	29⅛– 9½	19¾	22.37	0.9	2.42	8	0.40	2.0
613	840	Mead	57.8	37⅝–13½	36⅞	27.42	1.3	–0.70	def	1.00	2.7
614	591	Genl Tire & Rubber	57.6	38 –11⅝	35½	42.18	0.8	2.52	14	1.50	4.2
615	72	Gates Learjet	57.4	27¾– 6¼	12⅝	10.43	1.2	0.01	NM	0.15	1.2
616	433	Pennzoil	57.3	62½–20	32¼	22.98	1.4	2.97	11	2.20	6.8
617	*	H J Wilson	57.2	29½– 7⅜	17⅛	14.54	1.2	0.77	22	0.20	1.2
618	874	Occidental Petroleum	57.1	39⅛–17	24¾	25.04	1.0	–1.40	def	2.50	10.1
619	95	Resorts Intl	57.1	54⅞–12½	40¼	25.76	1.6	2.59	16	none	0.0
620	340	Entex	57.0	24¼–10⅛	20¼	13.48	1.5	2.50	8	1.20	5.9
621	391	Chase Manhattan	56.6	62¼–28⅝	46	81.42	0.6	10.73	4	3.50	7.6
622	584	Marsh & McLennan Cos	56.4	48⅜–26⅝	48	13.07	3.7	3.43	14	2.20	4.6
623	190	Idle Wild Foods	56.3	29½–10	25	32.19	0.8	2.42	10	0.80	3.2
623	*	MGM Grand Hotels	56.3‡‡	17⅜– 5½	12½	–0.46	NE	0.54	23	0.44	3.5
625	452	Ogden	55.8	39⅞–17½	30	27.74	1.1	2.82	11	1.80	6.0
626	775	Wisconsin Elec Power	55.8	28½–12¾	27	24.40	1.1	3.80	7	2.10	7.8
627	634	Tecumseh Products	55.8	105 –52	88	66.49	1.3	9.08	10	3.40	3.9
628	33	Warner Communications	55.7	63¼–12⅛	21⅛	21.85	1.0	–5.87	def	1.00	4.7
629	571	General Foods	55.6	53½–23½	50	36.06	1.4	5.71	9	2.40	4.8
630	573	Centel	55.5	40⅜–21¼	37⅛	24.23	1.5	4.08	9	2.26	6.1

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Index was 54.9%.

*Not ranked last year. ‡‡Three-year price change. NE: negative equity. NM: not meaningful. def: deficit.

Who's where in the stock market

Rank 83	Rank 82	Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/book value	Latest 12-month earnings per share	Price/earnings ratio	Indicated annual dividend	Current yield
631	292	Datapoint	55.4%	67½–10⅞	27	$16.41	1.6	$0.65	42	none	0.0%
632	927	Graniteville	55.2	17¼– 8½	16⅞	20.07	0.8	–2.14	def	none	0.0
633	732	El Paso	54.1	30½–13⅝	23½	10.83	2.2	1.56	15	NM	–
634	503	Boise Cascade	53.7	48¼–19¾	41⅛	46.54	0.9	1.75	24	$1.90	4.6
635	626	Stewart-Warner	53.6	33 –13⅞	28¾	26.94	1.1	0.59	49	1.68	5.8
636	766	Penn Traffic	53.5	26½–11⅝	24⅜	23.63	1.0	3.07	8	1.20	4.9
637	492	Tidewater	53.5	54⅛–13⅜	22	19.88	1.1	1.86	12	0.90	4.1
638	483	J P Morgan	53.4	86¼–39¾	69⅝	68.44	1.0	10.41	7	3.70	5.3
639	565	Northwest Industries	53.2	80½–24¾	41⅜	37.51	1.1	0.62	67	2.68	6.5
640	658	Exxon	53.2	44½–27⅛	37⅝	32.84	1.1	5.59	7	3.20	8.5
641	449	Business Men's Assur	53.1	40 –20½	37½	42.10	0.9	5.83	6	1.80	4.8
642	486	Atlantic Richfield	53.0	74⅜–28	43½	38.52	1.1	6.11	7	2.40	5.5
643	668	Wm Wrigley Jr	52.8	56¼–29	51⅜	31.65	1.6	5.06	10	2.49	4.8
644	627	Riegel Textile	52.7	29 –15¼	25	39.32	0.6	2.13	12	1.80	7.2
645	400	United Energy Resources	52.6	56 –16¼	25⅜	33.73	0.8	1.92	13	2.48	9.8
646	515	Northern Trust	52.2	64¼–27¾	59¾	69.68	0.9	4.44	13	2.72	4.6
647	*	Dart & Kraft	51.7‡‡	77¼–39⅝	66	50.66	1.3	7.90	8	3.84	5.8
648	929	Ford Motor	51.6	46⅛–10½	42⅜	33.61	1.3	4.69	9	1.20	2.8
649	689	Mercantile Bancorp	51.5	42¼–20½	38⅝	50.19	0.8	6.56	6	2.68	6.9
650	327	Computer Sciences	51.1	29¾–10½	17	10.24	1.7	1.13	15	none	0.0
651	430	Citicorp	51.1	46⅛–17	35½	37.85	0.9	6.48	5	1.88	5.3
652	561	McGraw-Edison	51.0	51 –20¾	37⅜	35.32	1.1	2.40	16	2.00	5.4
653	831	Scovill	50.7	32⅞–13⅞	26¾	16.95	1.6	2.19	12	1.52	5.7
654	495	Foxboro	50.6	47½–19½	32⅞	26.10	1.3	0.82	40	1.04	3.2
655	906	Amerace	50.0	32¼–14⅛	25⅞	33.13	0.8	–1.24	def	0.40	1.5
655	448	Fedl Natl Mortgage	50.0	30⅛– 6⅜	24⅜	17.61	1.4	0.90	27	0.16	0.7
655	856	Fieldcrest Mills	50.0	37¾–17⅛	37½	43.86	0.9	4.06	9	2.00	5.3
658	717	Texaco	49.7	54⅜–23⅝	35¾	55.11	0.6	4.98	7	3.00	8.4
659	460	J P Stevens	49.6	26 –11⅞	18⅞	33.68	0.6	0.97	19	1.20	6.4
660	700	Black & Decker	49.6	26⅜–12	24⅞	10.70	2.3	1.02	24	0.52	2.1
661	615	Emhart	49.5	29⅛–11⅝	27⅝	19.26	1.4	3.20	9	1.40	5.1
662	734	Kerr Glass Mfg	49.5	21¼– 8½	17¾	23.05	0.8	–5.43	def	0.44	2.5
663	696	Wisconsin Pwr & Lt	49.3	29½–14⅛	28⅜	22.77	1.2	3.76	8	2.40	8.5
664	714	Northeast Utilities	48.6	13⅞– 7⅜	13⅜	12.90	1.0	2.23	6	1.38	10.3
665	372	Cameron Iron Works	48.1	67 –13⅜	19½	18.02	1.1	–0.90	def	0.40	2.1
666	641	Ferro	47.8	39⅞–17	34	27.45	1.2	2.32	15	1.20	3.5
667	479	Standard Oil Calif	47.7	58¾–22¼	34⅝	38.74	0.9	4.72	7	2.40	6.9
668	558	Quaker State Oil	47.6	23½– 9⅞	15½	12.01	1.3	1.58	10	0.80	5.2
669	508	Avco	47.5	36⅜–13⅞	33¾	41.21	0.8	2.93	12	1.20	3.6
670	605	Dana	47.5	32 –11⅞	29	18.67	1.6	1.24	23	1.12	3.9
671	619	USLIFE	47.4	34 –14½	28	34.00	0.8	3.66	8	0.96	3.4
672	909	Del E Webb	47.0	25¼– 4⅞	18⅜	13.70	1.3	0.10	NM	none	0.0
673	616	Oneok	46.8	44⅞–17½	29	28.53	1.0	2.51	12	2.40	8.3
674	521	PepsiCo	46.8	50 –20	37⅝	17.68	2.1	2.60	14	1.62	4.3
675	622	Washington National	46.8	39⅝–12	22¾	28.69	0.8	2.10	11	1.08	4.7
676	753	First Bank System	46.6	61½–27½	54¼	61.51	0.9	8.57	6	2.80	5.2
677	740	San Diego Gas & Elec	46.6	22 – 9	21⅝	16.94	1.3	2.82	8	1.96	9.1
678	493	Merck	46.0	104⅝–58¾	98¾	29.81	3.3	6.02	16	3.00	3.0
679	581	Echlin	45.7	24⅞–10	23⅛	10.36	2.2	1.50	15	0.64	2.8
680	683	Manufacturers National	45.5	40¾–11¾	36¾	52.73	0.7	6.61	6	1.60	4.4
681	664	U S Bancorp	45.2	27¼–13½	24¾	25.04	1.0	2.73	9	1.00	4.0
682	736	Beneficial Corp	44.8	35⅜–14⅝	33⅛	28.55	1.2	2.59	13	2.00	6.0
682	727	Cooper Industries	44.8	62 –19¼	35¾	26.31	1.4	0.98	36	1.52	4.3
684	753	Central Illinois Lt	44.4	22⅞–11¼	22⅜	20.08	1.1	2.96	8	2.06	9.2
685	857	Carter Hawley Hale	44.0	24¾–10½	22½	20.83	1.1	1.66	14	1.22	5.4
686	744	GAF	44.0	19¾– 7¾	16⅝	10.45	1.6	–0.16	def	none	0.0
687	450	Best Products	43.1	26½– 9¼	23¼	13.51	1.7	1.72	14	0.24	1.0
688	797	Centerre Bancorp	42.8	29 –15⅞	24¾	37.80	0.7	2.75	9	1.80	7.3
689	387	Aetna Life & Casualty	42.7	48¼–25⅝	36⅞	41.98	0.9	3.99	9	2.64	7.2
690	703	Pacific Gas & Elec	42.7	16½– 9⅝	15⅞	15.83	1.0	2.22	7	1.60	10.1
691	*	MGM/UA Entertainment	42.7‡‡	22¼– 5	13⅜	5.96	2.2	0.78	17	0.20	1.5
692	690	Florida Progress	42.5	22¼–10⅞	22	18.69	1.2	2.63	8	2.04	9.3
693	777	International Paper	42.5	59⅝–30½	52	64.93	0.8	3.78	14	2.40	4.6

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Who's where in the stock market

Rank 83	Rank 82	Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
694	697	NBD Bancorp	42.3%	45 –19¾	40⅜	$61.93	0.7	$6.62	6	$2.20	5.4%
695	755	Texas Utilities	41.7	27⅜–14⅞	26¾	24.59	1.1	3.77	7	2.20	8.2
696	752	TECO Energy	41.4	25¾–13¼	24¾	21.12	1.2	3.17	8	2.04	8.2
697	853	General Motors	41.4	80 –33⅞	76	57.63	1.3	8.18	9	2.80	3.7
698	806	Colgate-Palmolive	41.4	25⅜–11	23½	15.97	1.5	2.42	10	1.28	5.4
699	155	Kay	41.2	28¼– 7⅝	13¼	8.58	1.5	0.26	51	0.20	1.5
700	652	Provident Life & Acc	41.1	66 –32½	63½	65.77	1.0	8.12	8	2.60	4.1
701	*	Orange & Rockland	41.0	21½–10⅝	20⅝	18.73	1.1	2.64	8	1.92	9.3
702	471	Eli Lilly	40.7	68¾–45⅛	67⅜	27.10	2.5	5.87	11	2.90	4.3
703	576	Weyerhaeuser	40.6	41¾–22⅛	34⅝	22.62	1.5	0.76	46	1.30	3.8
704	813	ARA Services	40.3	55 –23½	50½	44.25	1.1	4.51	11	2.05	4.1
705	728	Edison Bros Stores	39.7	46¾–20¼	40½	23.96	1.7	3.59	11	1.60	4.0
706	767	Delmarva Power & Lt	39.6	19⅝–10¼	18½	15.94	1.2	2.42	8	1.64	8.9
707	445	Norton	39.3	62 –22	35⅞	31.31	1.1	1.52	24	2.00	5.6
708	846	Coastal Corp	39.1‡	59½–14⅛	33⅜	23.48	1.4	3.90	9	0.40	1.2
708	769	Commonwealth Energy	39.1	23¾–11¾	22¼	21.05	1.1	4.03	6	2.12	9.5
710	763	Montana Power	38.9	36⅛–18	28⅛	27.50	1.0	4.00	7	2.68	9.5
711	742	Owens-Corning Fbrgls	38.7	46⅞–15⅜	36¾	23.67	1.6	2.31	16	1.20	3.3
712	678	Interstate Bakeries	38.5	15⅛– 4½	13½	8.87	1.5	–2.62	def	none	0.0
713	674	National Distillers	38.1	33⅝–18⅜	25⅜	31.02	0.8	1.37	19	2.20	8.7
714	645	Schering-Plough	38.0	48⅛–24⅞	40⅞	24.92	1.6	3.59	11	1.68	4.1
715	490	Copperweld	37.7	31¾–10½	16¾	19.89	0.8	–3.39	def	0.58	3.5
716	648	National Fuel Gas	37.3	37½–21¼	35⅞	48.77	0.7	4.99	7	3.44	9.6
717	774	First Security	37.2	27⅜–14⅛	25⅜	27.22	0.9	4.19	6	1.10	4.3
717	178	SmithKline Beckman	37.2	88⅜–38½	62¾	22.21	2.8	5.87	11	2.80	4.5
719	698	CBS	37.0	81¾–33⅜	69½	44.93	1.5	4.97	14	2.80	4.0
720	822	Beatrice Foods	36.8	32⅛–16¼	31⅛	20.45	1.5	3.12	10	1.60	5.1
721	770	Southwestern Pub Svc	36.7	19¾– 9½	18⅝	11.09	1.7	2.36	8	1.74	9.3
722	677	Wells Fargo	35.9	39¾–18¼	36⅞	46.61	0.8	5.83	6	2.16	5.9
723	512	Stewart & Stevenson	35.9	23¾–10⅝	14½	19.19	0.8	1.33	11	0.20	1.4
724	455	Gt Western Financial	35.9	31½– 9½	24⅛	23.14	1.0	1.29	19	0.88	3.6
725	748	Anderson, Clayton	35.8	33⅜–18⅛	28	45.28	0.6	2.15	13	1.32	4.7
725	585	National Can	35.8	28¼–15⅜	25⅝	34.44	0.7	1.90	13	1.00	3.9
727	491	Stauffer Chemical	35.7	31¾–14½	26⅜	24.61	1.1	–0.28	def	1.44	5.5
728	746	Washington Gas Light	35.5	43⅜–18⅛	31	31.79	1.0	4.20	7	2.88	9.3
729	746	Economics Laboratory	35.4	33¾–15⅞	29⅝	13.91	2.1	–1.08	def	1.04	3.5
730	374	Gifford-Hill	35.4	26⅞–10	18½	23.46	0.8	0.27	69	0.52	2.8
731	675	Norwest	35.3	39½–17	34	33.85	1.0	3.52	10	1.80	5.3
732	741	Baltimore Gas & Elec	34.9	34¼–18⅜	32⅞	32.24	1.0	4.63	7	3.00	9.1
733	499	Minn Mining & Mfg	34.9	90½–45⅞	85⅛	30.10	2.8	5.56	15	3.30	3.9
734	26	Caesars World	34.7	36⅛– 6⅜	11	5.33	2.1	–0.33	def	none	0.0
735	758	AmeriTrust	34.7	49½–23	42¾	64.97	0.7	6.22	7	2.88	6.7
736	912	Pennwalt	34.5	45¾–21½	43⅞	35.38	1.2	2.20	20	2.20	5.0
737	676	Safeway Stores	34.2	30 –12⅛	27	21.76	1.2	3.16	9	1.50	5.6
738	849	Atlantic City Elec	34.0	25⅞–14⅞	24⅛	22.29	1.1	3.31	7	2.36	9.8
739	759	Bangor Punta	33.9	29⅛–10½	18¾	29.00	0.6	–9.11	def	0.80	4.3
740	778	Indianapolis Pwr & Lt	33.7	30½–17	29¾	25.42	1.2	4.16	7	2.76	9.3
741	809	Dow Chemical	33.7	39¼–19⅝	33¼	25.96	1.3	1.26	26	1.80	5.4
742	737	Jim Walter	33.6	47⅞–16	35¾	39.63	0.9	4.05	9	1.20	3.4
743	320	Federal Co	33.3	30¼–13	27½	24.04	1.1	2.97	9	1.44	5.2
744	891	American Can	33.1	48⅞–25¾	47¾	43.23	1.1	2.90	16	2.90	6.1
745	739	Utah Power & Light	32.9	25 –13	24¾	18.66	1.3	2.53	10	2.32	9.4
746	221	Boeing	32.4	48¼–15	42	29.12	1.4	3.60	12	1.40	3.3
747	469	CBI Industries	32.3	70⅞–22¾	31½	25.57	1.2	3.18	10	1.55	4.9
748	808	Textron	32.2	38½–17¼	33⅞	33.29	1.0	2.23	15	1.80	5.3
749	828	Kansas City Pwr & Lt	32.1	22½–12⅛	21¼	21.96	1.0	3.85	6	2.24	10.5
750	862	Kentucky Utilities	31.9	24 –14⅜	23¾	21.58	1.1	2.83	8	2.28	9.6
751	907	Emery Air Freight	31.8	25¼– 7	24⅜	4.77	5.1	1.15	21	0.50	2.1
752	*	Society	31.7	29½–14¼	27	38.52	0.7	4.76	6	1.60	5.9
753	805	Central Ill Pub Svc	31.7	17⅛– 9⅞	16⅝	14.31	1.2	2.21	8	1.52	9.1
754	797	Duke Power	31.6	26⅜–13¾	25½	24.85	1.0	3.62	7	2.36	9.3
755	899	Dayco	31.5	17⅝– 6¼	15⅜	22.25	0.7	0.39	39	0.16	1.0
756	482	Harris Corp	31.3	60¼–20⅜	37¾	20.12	1.9	1.76	21	0.88	2.3

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*Not ranked last year. ‡Four-year price change. def: deficit.

Who's where in the stock market

Rank		Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
83	82										
757	810	RCA	31.1%	35⅜–15¾	34¼	$21.91	1.6	$ 1.83	19	$0.90	2.6%
758	485	Godfrey	30.9	17 – 8	11	16.82	0.7	1.02	11	0.72	6.5
759	785	Atlanta Gas Light	30.6	20½–12⅝	19¾	30.10	0.7	3.11	6	2.00	10.1
760	640	Corning Glass Works	30.5	90¼–39¼	69½	47.95	1.4	4.64	15	2.32	3.3
761	915	CertainTeed	30.5	25¾–10	20⅞	18.06	1.2	1.48	14	none	0.0
762	322	NVF	30.5	7 – 1¼	2	1.70	1.2	–0.98	def	none	0.0
763	761	Jefferson-Pilot	29.8	39¾–22⅛	39¼	42.90	0.9	4.24	9	1.76	4.5
763	735	Tenneco	29.8	58⅜–22⅞	39¼	39.45	1.0	5.16	8	2.80	7.1
765	545	Ramada Inns	29.7	14¼– 4¼	10⅜	5.12	2.0	–0.20	def	none	0.0
766	464	Cessna Aircraft	29.7	36½–11⅜	23	18.37	1.3	–0.98	def	0.40	1.7
767	500	Willamette Inds	29.5	47⅛–16¼	35¼	26.27	1.3	1.45	24	1.50	4.3
768	939	United States Steel	29.4	35¼–16	27½	53.50	0.5	–5.99	def	1.00	3.6
769	764	Central & South West	29.3	20¾–11¼	19⅞	19.01	1.0	2.98	7	1.78	9.0
770	782	GATX	29.2	46 –20½	31	39.76	0.8	1.72	18	1.20	3.9
771	*	Iowa-Illinois G & E	29.0	26¾–14⅝	25	23.99	1.0	4.40	6	2.48	9.9
772	255	Digital Equipment	28.9	132⅛–48⅜	69⅛	62.84	1.1	4.26	16	none	0.0
773	604	Procter & Gamble	28.8	63⅛–31½	57¼	27.75	2.1	5.31	11	2.40	4.2
774	797	Niagara Mohawk Power	28.6	18½–10	18	17.67	1.0	2.75	7	1.92	10.7
775	745	Columbia Gas System	28.4	47 –25¼	32¾	40.73	0.8	4.41	7	3.02	9.2
776	665	United Telecom	27.3	25 –14	23⅞	17.92	1.3	2.63	9	1.84	7.7
777	644	Coca-Cola	26.8	57⅜–28⅞	55⅝	20.47	2.7	4.08	14	2.68	4.8
778	709	Crown Cork & Seal	26.7	38¾–22¾	38	40.03	0.9	3.18	12	none	0.0
779	795	Pub Svc Elec & Gas	26.5	26⅛–15½	25⅝	26.39	1.0	3.44	7	2.64	10.3
780	454	Hughes Tool	26.3	48⅝–13⅞	19⅝	22.56	0.9	–0.22	def	0.84	4.3
781	172	Borman's	25.9	13¼– 2	8½	14.45	0.6	0.11	NM	none	0.0
782	861	Equitable of Iowa	25.3	28¾–13½	24¾	33.45	0.7	2.96	8	1.28	5.2
783	864	Southern Company	25.2	17¾–10¼	16¾	16.77	1.0	2.36	7	1.80	10.7
784	653	Kerr-McGee	25.1	46½–22½	29⅞	31.69	0.9	3.30	9	1.10	3.7
785	817	E I du Pont	25.0	56 –30	52½	44.87	1.2	4.12	13	2.80	5.3
785	712	Hawaiian Electric	25.0	33⅞–18¼	32½	36.93	0.9	3.05	11	3.12	9.6
787	459	Walt Disney	24.6	84¾–33	50	37.59	1.3	2.70	19	1.20	2.4
788	830	Gulf States Utils	24.5	16¼– 9	14⅝	15.05	1.0	2.40	6	1.64	11.2
789	694	Intl Flavors & Frag	24.3	35¾–16⅝	29⅜	9.19	3.2	1.81	16	1.04	3.5
790	551	Big Three Industries	23.9	38 –15⅛	19⅝	14.37	1.4	1.20	16	0.72	3.7
790	768	Sybron	23.9	29¼–12	22	22.30	1.0	–3.40	def	1.08	4.9
792	713	Holly Corp	23.7	19⅜– 4⅞	9⅛	8.50	1.1	0.80	11	0.24	2.6
793	633	Briggs & Stratton	23.7	37¼–20¾	31⅜	18.05	1.7	1.57	20	1.58	5.0
794	375	Eastman Kodak	23.5	98⅛–42⅞	72⅜	45.52	1.6	5.32	14	3.55	4.9
795	827	Oklahoma Gas & Elec	23.1	21⅝–11½	20⅝	17.08	1.2	2.63	8	1.84	8.9
796	659	First Chicago	23.0	28 –10¾	23⅜	33.55	0.7	3.88	6	1.32	5.6
797	639	Lucky Stores	22.9	25¼–12¼	18⅛	10.50	1.7	2.22	8	1.16	6.4
798	524	Becton, Dickinson	22.8	54½–22	38⅜	27.72	1.4	1.71	22	1.15	3.0
799	794	Pacific Pwr & Lt	22.8	25⅜–16	24¼	22.23	1.1	3.41	7	2.16	8.9
800	710	Central Soya	22.6	21⅜– 8⅝	15⅝	20.34	0.8	1.68	9	0.84	5.4
801	529	Lone Star Industries	22.5	38⅜–18⅛	25⅞	36.67	0.7	–2.52	def	1.90	7.3
802	715	Crane	22.3	44⅞–17⅜	28⅝	37.07	0.8	–2.35	def	1.60	5.6
803	904	American Bakeries	22.1	20⅝– 8	13⅞	12.68	1.1	–2.66	def	none	0.0
804	587	Universal Foods	21.9	31 – 9⅞	24⅜	14.88	1.6	2.91	8	1.04	4.3
805	866	Bethlehem Steel	21.7	32 –14½	23⅞	28.31	0.8	–13.41	def	0.60	2.5
806	655	Potlatch	21.5	49¼–19	36	34.22	1.1	1.78	20	1.48	4.1
807	506	Acme-Cleveland	21.3	35⅝–15⅝	22¾	27.56	0.8	–7.39	def	0.40	1.8
808	624	California First Bnk	21.2	17¾–11½	16⅝	23.10	0.7	1.87	9	1.08	6.5
809	729	Warner-Lambert	21.1	35 –17	28¾	14.37	2.0	2.43	12	1.48	5.1
810	724	Kaneb Services	21.0	40⅛–11¾	15⅞	13.39	1.2	2.17	7	1.04	6.6
811	760	N Y State Elec & Gas	20.7	22⅞–13⅛	20⅜	21.82	0.9	3.11	7	2.32	11.4
812	809	St Regis	19.9	42½–17¼	33⅞	41.09	0.8	–0.36	def	1.12	3.3
813	903	Data General	19.8	43⅞–10¼	36⅜	19.56	1.9	0.96	38	none	0.0
814	599	Upjohn	19.7	69 –38	58½	32.19	1.8	4.99	12	2.28	3.9
815	630	Crocker National	19.5	42 –20¾	29⅛	59.16	0.5	3.11	9	2.40	8.2
816	631	Manufacturers Hanover	19.4	51 –26	38½	59.34	0.6	8.29	5	3.04	7.9
817	801	Moore McCormack Res	19.4	39⅞–11⅝	23⅜	40.07	0.6	0.69	34	1.04	4.4
818	673	Keystone Consolidated	19.2	20¼– 7¼	11⅝	36.09	0.3	–12.13	def	none	0.0
819	807	Houston Industries	19.2	24¼–16½	21¾	22.89	1.0	3.59	6	2.32	10.7

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Index was 54.9%.

*Not ranked last year. NM: not meaningful. def: deficit.

Who's where in the stock market

Rank 83	Rank 82	Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
820	944	Pan Am World Airways	18.9%	8⅞– 2⅜	7⅞	$4.11	1.9	$-3.40	def	none	0.0%
821	821	Boston Edison	18.9	28¾–18⅝	28⅜	31.39	0.9	3.82	7	$2.88	10.1
822	791	Pac Gamble Robinson	18.4	24¼–15¼	22¼	28.82	0.8	1.80	12	1.60	7.2
823	793	So Carolina E & G	18.4	21¼–12	20⅛	18.09	1.1	2.38	8	2.00	9.9
824	509	Di Giorgio	18.2	15⅞– 7	13	17.51	0.7	0.95	14	0.64	4.9
824	926	Diamond Shamrock	18.2	39⅝–16½	22¾	22.14	1.0	1.64	14	1.76	7.7
824	844	Penn Power & Light	18.2	24½–14½	22¾	24.73	0.9	3.11	7	2.40	10.5
827	316	Baker International	18.1	53½–15½	18¾	16.98	1.1	–0.91	def	0.92	4.9
828	790	Timken	17.8	78 –40⅝	58⅝	69.86	0.8	–2.51	def	1.80	3.1
829	878	Louisville Gas & Elec	17.1	24⅛–14½	24	22.14	1.1	2.77	9	2.36	9.8
830	896	Eagle-Picher Inds	16.7	25⅝– 9⅝	24½	22.60	1.1	1.24	20	0.96	3.9
831	531	Cook United	16.4	9¾– 2⅜	3⅝	10.16	0.4	–1.12	def	none	0.0
832	780	Continental Corp	16.3	38 –20⅝	28½	38.43	0.7	0.74	39	2.60	9.1
833	837	Halliburton	16.3	86⅜–21	38⅜	29.49	1.3	2.80	14	1.80	4.7
834	722	Comerica	16.2	30¾–17⅞	28½	40.01	0.7	4.31	7	2.00	7.0
835	704	Phelps Dodge	16.1	48½–18¼	24⅜	45.00	0.5	–1.91	def	none	0.0
836	647	Gould	15.8	43¾–19¼	30¼	20.31	1.5	1.67	18	1.72	5.7
837	887	Detroit Edison	15.7	16 –10	15⅝	16.49	0.9	2.14	7	1.68	10.8
838	682	Petrie Stores	15.5	40 –15½	31	12.37	2.5	2.05	15	1.40	4.5
839	921	Republic Steel	15.4	32⅛–13¾	26¼	86.70	0.3	–15.49	def	0.50	1.9
840	708	Champion Intl	15.3	28⅞–11¾	24½	28.43	0.9	0.98	25	0.40	1.6
841	892	Reynolds Metals	14.9	41⅜–18¾	37½	63.67	0.6	–6.88	def	1.00	2.7
842	568	Gibraltar Financial	14.6	16⅝– 2¾	11¾	8.33	1.4	1.75	7	none	0.0
843	937	McDermott Intl	14.6	46⅝–14¾	24½	33.13	0.7	2.44	10	1.80	7.3
844	858	Carolina Pwr & Lt	14.5	24¾–14⅞	24⅝	24.74	1.0	3.20	8	2.52	10.2
845	819	Midland-Ross	14.3	30½–11¾	19	21.76	0.9	–1.07	def	1.00	5.3
846	895	Crown Zellerbach	13.8	62¾–15¼	35⅛	35.36	1.0	0.98	36	1.00	2.8
847	583	UAL	13.3	41⅝–13½	33	37.57	0.9	0.75	44	none	0.0
848	815	Dominion Resources	13.1	23⅞–13¾	23¾	27.33	0.9	3.04	8	2.56	10.8
849	*	Dr Pepper	12.9	19¼– 9½	16⅝	6.61	2.5	0.39	42	0.84	5.1
850	814	BancOhio	12.9	23 –11¾	21½	40.76	0.5	1.95	11	1.00	4.7
851	885	Cross & Trecker	12.6‡	41¾– 9½	24⅞	17.40	1.4	0.30	NM	0.80	3.2
852	869	Cleveland Elec Illum	12.6	23 –13½	19	19.86	1.0	3.15	6	2.40	12.6
853	949	UMC Industries	12.3	18½– 7⅜	16	16.98	0.9	0.36	44	0.60	3.8
854	855	WICOR	12.3	25⅜–15¾	21¾	25.60	0.8	2.29	9	2.14	9.8
855	845	United Illuminating	12.1	29 –17	25½	29.90	0.9	5.58	5	3.08	12.1
856	875	Duquesne Light	11.9	19 –11⅜	16½	16.36	1.0	2.02	8	2.00	12.1
857	171	Frontier Holdings	11.8	30½– 7	13½	18.39	0.7	–2.08	def	0.20	1.5
858	572	Fisher Foods	11.3	15½– 5⅝	9⅞	14.60	0.7	0.49	20	none	0.0
859	818	Union Electric	10.3	16¼– 9¾	14¾	15.62	0.9	2.68	6	1.72	11.7
860	820	Rochester Gas & Elec	10.2	18⅞–10	17⅝	20.79	0.8	3.09	6	1.84	10.4
861	749	AMF	9.7	28½–11½	17	18.09	0.9	–0.60	def	0.50	2.9
862	731	Arizona Public Service	9.2	26½–14⅝	22¼	22.75	1.0	3.42	7	2.60	11.7
863	564	Ampco-Pittsburgh	9.0	26¾–10⅛	12⅞	21.98	0.6	–1.22	def	0.30	2.3
864	932	Nashua	8.9	34¾– 8½	24⅜	19.91	1.2	–2.17	def	none	0.0
865	812	UGI	8.8	36¼–17	18⅝	27.76	0.7	0.32	58	2.04	11.0
866	873	Commonwealth Edison	8.7	29¼–16¼	28	26.42	1.1	4.40	6	3.00	10.7
866	679	Lubrizol	8.7	41¾–14¼	24⅞	11.79	2.1	1.49	17	1.08	4.3
868	548	First City Bancorp	8.7	41¼–15⅝	18	24.31	0.7	2.41	7	1.30	7.2
869	839	Kaiser Alum & Chem	8.6	30¼–11⅛	19	30.81	0.6	–4.93	def	0.60	3.2
870	765	Longview Fibre	8.3	40 –14½	26	17.62	1.5	0.81	32	1.20	4.6
871	872	Public Service Colo	8.2	19 –11⅛	18⅛	16.52	1.1	1.93	9	1.84	10.2
872	848	Gas Service	6.9	16¼– 9¼	15½	19.11	0.8	0.68	23	NM	–
873	424	Gelco	6.5	37 –14½	19⅞	18.55	1.1	–2.38	def	0.56	2.8
874	826	Dresser Industries	6.1	57 –12¼	19⅝	25.35	0.8	0.03	NM	0.80	4.1
875	669	Deere	5.8	49¾–22	36⅝	35.29	1.0	–0.33	def	1.00	2.7
876	859	National City	5.7	46 –23⅜	42	51.92	0.8	6.15	7	2.75	6.5
877	282	Milton Bradley	5.6	50½–14½	21¼	26.32	0.8	0.52	41	1.20	5.6
878	757	Phillips Petroleum	5.5	62⅞–23½	33⅜	37.70	0.9	4.11	8	2.20	6.6
879	838	NICOR	5.2	45½–24¾	27¾	33.50	0.8	1.01	27	3.04	11.0
880	843	Middle South Utils	5.0	16⅞–10¼	15¾	18.05	0.9	2.35	7	1.74	11.0
881	893	Am Natural Resources	4.8†	44 –25¼	40¾	38.87	1.0	6.93	6	3.16	7.8
882	881	Michigan National	4.6	20¼– 9¾	16½	30.24	0.5	2.49	7	1.20	7.3

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Index was 54.9%.

*Not ranked last year. †Price change does not reflect the value of shares received in spinoff. ‡Four-year price range. NM: not meaningful. def: deficit.

Who's where in the stock market

Rank 83	Rank 82	Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
883	867	Champion Spark Plug	3.9%	13¾– 6⅞	10	$ 9.42	1.1	$ 0.55	18	$0.40	4.0%
884	606	Athlone Industries	3.9	30 –14⅝	20¼	22.22	0.9	−1.47	def	1.60	7.9
885	942	Talley Industries	3.3	12⅝– 3⅜	11¾	11.40	1.0	0.87	14	none	0.0
886	886	Georgia-Pacific	3.1	34⅞–13¼	25	20.39	1.2	0.40	63	0.60	2.4
887	789	American Tel & Tel	2.9	70¼–45	62¼	68.92	0.9	7.05	9	5.40	8.7
888	852	Brockway Inc (NY)	2.3	19½–12½	16⅝	29.48	0.6	1.32	13	1.32	7.9
889	901	DEKALB AgResearch	2.1	60¼–12¼	24¼	30.28	0.8	1.07	23	0.72	3.0
890	877	Phila Electric	1.6	18⅜–11⅛	15¾	17.93	0.9	2.47	6	2.12	13.5
891	940	Castle & Cooke	0.9	18⅛– 6⅞	16	14.22	1.1	0.42	38	none	0.0
892	954	National Intergroup	0.4	35½–13⅞	29⅛	54.03	0.5	−10.37	def	0.25	0.9
893	472	InterFirst	0.4	32⅜–15⅝	16⅝	20.45	0.8	−1.17	def	1.20	7.2
894	909	Ohio Edison	0.0	17½–10¼	14⅞	15.48	1.0	2.07	7	1.80	12.1
894	706	Southwest Forest Inds	0.0	28⅞– 7¼	13½	23.63	0.6	−2.36	def	none	0.0
894	222	Tosco	0.0	45⅛– 4½	6	14.98	0.4	−13.30	def	none	0.0
897	923	Ingersoll-Rand	−0.5	80 –35½	48¼	57.13	0.8	−1.55	def	2.60	5.4
898	102	Bally Manufacturing	−0.9	48⅝–17⅛	20⅜	18.62	1.1	1.01	20	0.20	1.0
899	950	Colonial Penn Group	−1.5	27½–11¼	24½	20.18	1.2	2.68	9	1.40	5.7
900	952	General Refractories	−2.0	14 – 2⅜	6⅛	4.85	1.3	−2.67	def	none	0.0
901	869	Sperry	−2.2	65⅝–20½	43⅜	52.68	0.8	3.20	14	1.92	4.4
902	925	Bucyrus-Erie	−2.4	27½–10¼	15¼	19.65	0.8	−3.43	def	0.44	2.9
903	955	National-Standard	−2.5	21⅜– 7⅛	14⅜	22.32	0.6	−0.23	def	none	0.0
904	893	Ideal Basic Inds	−3.4	36¼–11¾	21⅛	25.72	0.8	0.92	23	none	0.0
905	804	Amsted Industries	−3.5	49 –18⅝	34⅛	34.32	1.0	−0.35	def	0.80	2.3
906	47	Storage Technology	−4.1	40⅜–11⅞	14¾	15.92	0.9	0.09	NM	none	0.0
907	933	Rexnord	−4.7	20¼– 8½	15⅜	17.90	0.9	0.43	36	0.40	2.6
908	919	Amer Hoist & Derrick	−5.2	26½– 8¾	13⅜	26.61	0.5	−5.13	def	none	0.0
909	888	Clark Equipment	−5.5	45 –18	34⅜	33.41	1.0	1.04	33	1.10	3.2
910	934	No Indiana Pub Svc	−5.6	16⅞–10	14⅞	15.25	1.0	1.60	9	1.50	10.1
911	833	Dayton Power & Light	−6.0	19⅛–11⅛	13¾	18.35	0.7	2.62	5	2.00	14.5
912	914	Research-Cottrell	−6.3	21⅛– 9¾	15	23.16	0.6	0.97	15	0.32	2.1
913	962	Revere Copper	−7.6	25⅜– 4¾	12¼	5.56	2.2	−4.36	def	none	0.0
914	918	Koppers	−8.7	35¼–11¼	18⅜	20.28	0.9	0.11	NM	0.80	4.4
915	965	Westmoreland Coal	−9.4	37½–13½	24	25.48	0.9	1.14	21	0.40	1.7
916	691	Parker Drilling	−10.3	36¾– 7⅛	9⅛	13.26	0.7	−0.89	def	0.16	1.8
917	880	Illinois Power	−11.0	24⅛–15¾	20¼	21.53	0.9	3.55	6	2.48	12.2
918	900	Toledo Edison	−12.1	22½–15	19	23.32	0.8	3.39	6	2.44	12.8
919	829	Armco	−12.6	41⅜–14½	17⅜	29.25	0.6	−10.53	def	0.40	2.3
920	941	Pittston	−13.0	34¾–11⅞	15⅛	16.34	0.9	−0.36	def	0.20	1.3
921	882	Xerox	−13.2	71⅜–27⅛	46¼	43.96	1.1	4.41	10	3.00	6.5
922	517	Ashland Oil	−14.1	45¾–20½	29	38.97	0.7	2.23	13	1.60	5.5
923	661	Butler Manufacturing	−14.3	30¼–18½	25½	30.42	0.8	−0.39	def	1.32	5.2
924	920	American Elec Power	−14.8	23½–15¼	18	19.98	0.9	2.13	8	2.26	12.6
925	896	Portland Genl Elec	−14.9	18⅜–10¾	14¼	18.55	0.8	2.37	6	1.78	12.5
926	835	Long Island Lighting	−15.2	18¼–13½	14⅝	18.65	0.8	2.80	5	2.02	13.8
927	*	Puget Sound Pwr & Lt	−15.7	17½–11	14⅛	17.35	0.8	1.76	8	1.76	12.5
928	953	Inco	−16.7	33¼– 7⅞	13⅛	12.76	1.0	−2.98	def	0.20	1.5
929	533	Smith International	−16.9	70¼–18	19⅜	29.36	0.7	−4.14	def	0.96	5.0
930	943	MAPCO	−18.2	51⅞–20½	23⅝	21.06	1.1	1.90	12	1.00	4.2
931	119	Mattel	−18.3	31½– 5¼	6⅛	11.76	0.5	−9.53	def	none	0.0
932	890	Liquid Air	−18.7	34½–14¾	21¾	21.79	1.0	1.80	12	1.60	7.4
933	876	Northwestern Steel	−18.9	29¼–14⅞	23⅛	30.25	0.8	−2.68	def	none	0.0
934	883	Continental Illinois	−19.1	42¾–15⅛	21⅛	42.81	0.5	2.91	7	2.00	9.5
935	693	Amdahl	−19.3	29⅞– 7⅝	19⅜	7.71	2.5	0.65	30	0.20	1.0
936	911	Lukens	−19.8	17½– 8¾	12⅝	26.99	0.5	−2.61	def	0.40	3.2
937	938	Inland Steel	−20.7	40⅜–18⅛	27¾	52.19	0.5	−4.84	def	0.50	1.8
938	957	Evans Products	−22.5	24⅛– 4½	12½	15.56	0.8	−4.23	def	none	0.0
939	854	Public Service Indiana	−22.8	27½–17½	19	26.10	0.7	4.21	5	2.88	15.2
940	905	Consumers Power	−22.9	23⅝–15⅜	17¼	26.87	0.6	3.02	6	2.52	14.6
941	773	BankAmerica	−25.2	30⅞–15⅝	19¼	28.96	0.7	2.22	9	1.52	7.9
942	836	Alexander & Alexander	−26.4	38 –18⅝	20¼	10.61	1.9	−0.13	def	1.00	4.9
943	825	AMAX	−26.5	69 –17½	23⅞	32.45	0.7	−4.50	def	0.20	0.8
944	246	Oak Industries	−26.7	38½– 4⅝	6	15.20	0.4	−6.15	def	none	0.0
945	908	Caterpillar Tractor	−27.2	73¼–33⅛	42¾	38.28	1.1	−5.96	def	1.50	3.5

Note: Except as footnoted, price changes are measured from Dec. 29, 1978 to Nov. 15, 1983. For comparison, the five-year change in the Consumer Price Index was 54.9%.

*Not ranked last year. NM: not meaningful. def: deficit.

Who's where in the stock market

Rank 83	Rank 82	Company	5-year price change	1979-83 price range	Recent price	Book value (per share)	Recent price/ book value	Latest 12-month earnings per share	Price/ earnings ratio	Indicated annual dividend	Current yield
946	931	Chromalloy American	–28.2%	28¼– 7½	11⅛	$17.60	0.6	$–1.33	def	none	0.0%
947	959	Hanna Mining	–28.8	44⅜–16½	21⅝	38.70	0.6	–3.57	def	$0.40	1.8
948	935	Dravo	–29.6	33⅛– 9¼	13¼	17.82	0.7	–2.10	def	0.50	3.8
949	686	Eastern Air Lines	–30.9	13⅛– 3⅞	5⅞	9.59	0.6	–7.17	def	none	0.0
950	779	Polaroid	–30.9	56 –16¾	35¾	29.16	1.2	1.09	33	1.00	2.8
951	924	Bird	–34.0	22⅞– 4⅜	12	13.12	0.9	–0.94	def	none	0.0
952	945	Burroughs	–35.3	87½–27⅛	47¼	48.36	1.0	4.35	11	2.60	5.5
953	930	Revlon	–35.3	54⅞–22⅞	33¼	29.05	1.1	2.20	15	1.84	5.5
954	917	Cincinnati G & E	–36.3	21⅛–12⅜	12¾	19.70	0.6	2.99	4	2.16	16.9
955	947	Chic Pneumatic Tool	–38.1	29⅝–10⅞	15	27.93	0.5	–4.37	def	none	0.0
956	973	Massey-Ferguson	–40.0	13⅝– 1⅝	5¼	–1.94	NE	–9.35	def	none	0.0
957	*	Apple Computer	–42.1‡‡	63¼–10¾	19¾	4.50	4.4	1.28	15	none	0.0
958	743	Toro	–45.4	29⅝– 5⅜	10⅜	8.01	1.3	0.11	NM	none	0.0
959	963	Allis-Chalmers	–45.7	38⅝– 6¼	15¾	28.45	0.6	–20.09	def	none	0.0
960	635	Republic Airlines	–47.4	11⅝– 2⅞	3¾	1.27	3.0	–7.04	def	none	0.0
961	960	Harnischfeger	–48.0	26 – 5⅛	8¼	13.57	0.6	–9.26	def	none	0.0
962	951	Western Air Lines	–48.5	12 – 3⅜	4¼	4.69	0.9	–7.88	def	none	0.0
963	970	Manville	–49.2	27⅜– 4⅛	11½	31.38	0.4	2.94	4	none	0.0
964	966	First Pennsylvania	–51.9	15 – 2⅜	6⅜	11.81	0.5	–1.14	def	none	0.0
965	948	Avon Products	–54.7	56 –19⅜	23	16.40	1.4	2.45	9	2.00	8.7
966	961	Pettibone	–55.7	29¼– 7¼	7¾	17.02	0.5	–18.63	def	none	0.0
967	967	Wickes Cos	–55.9	18 – 2	5¼	–15.42	NE	–0.92	def	none	0.0
968	958	Savin	–56.4	19¾– 4⅜	5½	4.80	1.1	–1.97	def	none	0.0
969	487	Texas Air	–56.8	15¼– 4	5⅛	4.15	1.2	–11.88	def	none	0.0
970	967	General Public Utils	–58.6	18⅞– 3⅜	7¼	23.45	0.3	0.76	10	none	0.0
971	936	Marion	–59.3	15⅝– 1	1⅛	2.19	0.5	–1.36	def	none	0.0
972	972	Intl Harvester	–63.5	45½– 2¾	13¼	–18.60	NE	–23.00	def	none	0.0
973	865	HRT Industries	–65.3	11¾– 2¼	2⅞	4.84	0.6	–4.25	def	none	0.0
974	28	Baldwin-United	–73.2	50⅝– 2⅛	2¾	17.61	0.2	–28.80	def	none	0.0
975	964	Rath Packing	–76.5	8¼– ½	½	5.64	0.1	–3.18	def	none	0.0
976	971	AM International	–80.8	25 – ¾	4⅛	–7.76	NE	0.29	14	none	0.0
977	956	Tiger International	–81.5	28¾– 4¼	4½	16.72	0.3	–14.35	def	none	0.0
**	*	American President		28⅛–18¼	27⅜	NA	–	1.09	25	none	0.0
**	*	Big Bear		15 –10½	11¾	4.43	2.7	1.59	7	none	0.0
**	*	Bruno's		21 – 5⅜	14½	3.90	3.7	0.92	16	0.24	1.7
**	*	Calif Federal S&L		30¼–20	23¾	NA	–	4.44	5	none	0.0
**	*	CIGNA		55⅜–31	43	62.59	0.7	5.85	7	2.48	5.8
**	*	Engelhard		44¾–17	36½	15.32	2.4	2.61	14	0.64	1.8
**	*	L B Foster		17½– 4	6⅜	7.87	0.8	–1.30	def	0.10	1.6
**	*	Geo International		46½– 7½	8⅜	13.13	0.7	–3.15	def	none	0.0
**	*	Glendale Federal S&L		13⅝– 9⅝	11¼	NA	–	2.03	6	none	0.0
**	*	Gulfstream Aerospace		23½–14¾	17⅜	2.43	7.2	1.64	11	none	0.0
**	*	Home Federal S&L-Cal		25⅜–13⅞	14⅞	NA	—	0.99	15	none	0.0
**	*	Imperial Corp of Am		17⅜– 4¾	10⅜	15.30	0.7	–2.31	def	none	0.0
**	756	Louisiana Land		30⅛–23½	27¼	22.07	1.2	2.64	10	1.00	3.7
**	*	Mack Trucks		19½–15¼	19⅛	14.78	1.3	–1.18	def	none	0.0
**	*	Masonite		59 –17¾	45½	37.29	1.2	3.67	12	1.32	2.9
**	*	McLean Industries		11 – 9⅞	10⅝	5.47	1.9	1.04	10	none	0.0
**	*	MidCon		39¼–19⅜	35⅜	33.91	1.0	4.11	9	2.16	6.1
**	*	Nabisco Brands		44⅜–25⅛	42⅞	26.22	1.6	4.84	9	2.28	5.3
**	*	Norfolk Southern		70⅝–40¼	64¾	55.44	1.2	4.70	14	2.80	4.3
**	*	Pabst Brewing		16⅛– 7¼	7¾	NA	–	NA	–	none	0.0
**	*	Peabody Intl		15¼– 4⅝	12¼	11.50	1.1	0.71	17	0.20	1.6
**	*	Peoples Energy		10⅞– 7	9⅝	10.71	0.9	1.25	8	1.00	10.4
**	*	Phibro-Salomon		41 –10⅛	30¾	12.85	2.4	3.22	10	0.54	1.8
**	*	PNC Financial		46¼–31½	39⅛	32.96	1.2	5.53	7	2.12	5.4
**	*	Primark		39½–21	37½	53.68	0.7	2.82	13	2.40	6.4
**	*	Richardson-Vicks		34¾–20½	29¼	19.81	1.5	2.11	14	1.48	5.1
**	*	RLC		12⅛– 3⅞	10⅛	5.06	2.0	0.34	30	0.20	2.0
**	*	Student Loan Mktg		27 –20⅝	27	2.95	9.2	1.28	21	0.11	0.4
**	*	Swift Independent		37¾– 8¾	31⅛	19.41	1.6	4.29	7	1.04	3.3
**	*	Tribune		31⅝–27¾	31¼	16.63	1.9	1.71	18	0.72	2.3
**	*	Wilson Foods		15 – 4⅛	7⅞	14.26	0.6	–7.31	def	none	0.0

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*Not ranked last year. **Not ranked due to merger, spinoff, new issue or conversion to stock company. ‡‡Three-year price change. NA: not available. NM: not meaningful. NE: negative equity. def: deficit.